Exhibit D

Kniffen Declaration

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

---x

In re:	Chapter 11
SEARS HOLDINGS CORPORATION, *et al.*,	Case No. 18-23538 (RDD)
Debtors.[1]	(Jointly Administered)

---x

DECLARATION OF JAN R. KNIFFEN

I, Jan R. Kniffen, hereby declare, pursuant to 28 U.S.C. § 1746, under penalty of perjury, as follows:

1. I am the CEO of J. Rogers Kniffen Worldwide Enterprises, LLC, a retail consulting company with its principal office located at 19 Boulder Brook Road, Greenwich, CT 06830.

2. I was retained by counsel for the Official Committee of Unsecured Creditors (the "Committee") of Sears Holdings Corporation ("Sears") to opine on the viability of post-bankruptcy Sears ("Sears NewCo") following its proposed acquisition by ESL Investments, Inc.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); SHC Licensed Business LLC (3718); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc.(4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); SHC Promotions LLC (9626); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); and Sears Brands Management Corporation (5365). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

("ESL"). Specifically, I was asked to review the proposed business plan for Sears NewCo and to assess the reasonableness of ESL's financial projections and liquidity forecast.

3. On January 26, 2019, I submitted an expert report outlining my opinions in this matter (the "Initial Kniffen Expert Report"). Since then, I have updated my expert report with a corrected Exhibit 18, which updates a certain calculation with respect to September 2018 sales (the "Kniffen Expert Report"). The correction to Exhibit 18 does not change any of the opinions expressed in my report.

4. In accordance with my understanding of this Court's Chambers Rules, I respectfully submit this Declaration together with Exhibit A as my direct testimony on behalf of the Committee. If called to testify, I could and would testify competently to the facts and opinions stated in the Kniffen Expert Report.

Dated: February 1, 2019
New York, New York

By: J R Kniffen
Jan R. Kniffen

Exhibit A

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	Chapter 11
SEARS HOLDINGS CORPORATION, et al.,	Case No. 18-23538 (RDD)
	(Jointly Administered)
Debtors.	

EXPERT REPORT OF JAN R. KNIFFEN

January 26, 2019

Table of Contents

I. Introduction and Qualifications

A. Qualifications

1. My name is Jan Rogers Kniffen. I have worked in senior and executive positions in the retail and apparel industry and the retail consulting and research industry with a focus on finance and operations. I have been creating, analyzing and reviewing business plans for almost five decades. I began my career at ACF Industries, Inc., a Fortune 500 company, where I was promoted to the role of Director of Business Planning for one of its divisions. During this period, I was an associate professor at Lindenwood University and one of the classes I taught in the MBA program was Strategic Planning.

2. From 1985 through 2005, I worked at The May Department Stores Company ("May"), which operated various department, discount and specialty stores and developed, owned, and operated its own regional shopping malls. As the company's senior vice president and treasurer, I was responsible for managing many aspects of May's retail business, including long-term financial planning, acquisition analysis, investor relations, public relations, treasury operations, tax, and risk management. I oversaw numerous acquisitions and divestitures, including, among others, the acquisition of Marshall Field's, the divestitures of Payless ShoeSource, Venture Stores, Inc., and Caldor Inc., and the sale and leaseback of approximately 100 department stores. I also served on the Financial Disclosure Committee, and as liaison to the Finance Committee of the Board of Directors. I chartered and was president of May's three national banks, and was president of two captive insurance subsidiaries.

3. From 1991 until 2005, as a senior vice president and liaison to the Finance Committee of the Board of May, I was responsible for evaluating every new store, whether built or acquired, against the five-year plan for that store and reporting those findings every year to the Finance Committee. During this period, the reporting encompassed approximately 37 newly built or acquired department stores per year, more than 100 new shoe stores per year, and more than 40 newly remodeled stores per year. I also explained (1) each store's variance to plan based on the cost to build or acquire; (2) the timing of the store's opening versus plan; (3) sales performance and expense performance; (4) projected return on investment ("ROI"), whether negative or positive; and also (5), reported on plans to

improve each store's performance versus plan, or to recognize and evaluate positive variances to improve the forecasting process. That, in conjunction with my role of forecasting the five-year performance plan for the entire corporation and reporting variances to those forecasts every year, has enhanced my ability to evaluate forward-looking plans in the retail industry. Notably, my planning experience includes planning for department stores, discount stores, and specialty stores.

4. I worked on, planned, analyzed, and incorporated in the May business plan more than thirty acquisitions and/or operational restructurings of its retail business. Those projects included, but are not limited to, the following:

- My first project, the one for which May hired me, was the acquisition of the Associated Dry Goods Company, the operator of department stores, discount stores, off-price stores, and specialty stores. My role was to conduct the financial modeling for the acquisition, including the impact of divestitures likely to occur post-closing, and to establish the capital structure of the newly merged company. My role also involved incorporating those changes into May's five-year plan. When the Associated Dry Goods transaction closed in 1986, it was the largest acquisition in the history of retailing.

- In 1988, I planned the acquisition of Federated Department Stores and modeled each of the various structuring possibilities contemplated over the course of the transaction, which culminated with May acquiring two department store divisions from Federated. Those two divisions required immediate incorporation into the five-year planning process.

- In 1989, I planned and modeled the sale of the Caldor discount stores to a private equity firm, including the impact of the sale on the May five year plan.

- In 1990, I managed, modeled, and designed the capital structure for the tax-free spin-off of Venture Stores, a discount division of May, and incorporated the transaction into the May five-year plan.

- Between 1990 and 1992, I planned, modeled, and designed the capital structure for a transaction whereby May entered into a partnership with The Prudential Insurance Company that included the sale and leaseback of 100 department stores and a joint venture to operate 26 regional shopping malls. The transaction led to the eventual unwinding of the partnership, divesting May's interest in the shopping centers, and repurchasing the 100 department stores. I was responsible for modeling the impact of that complicated set of transactions into the May five-year plan.

- In 1995, I planned, modeled, designed, and funded the capital structure to purchase the John Wannamaker stores in Philadelphia, PA, another addition to the five-year

planning process.

- In 1995, I modeled the acquisition of 550 shoe stores from Kobacker and Shoe Works, an acquisition that had a meaningful impact on the five-year plan when it was executed.

- In 1996, I planned, modeled, led the roadshow for and executed the tax-free spin-off of the Payless ShoeSource subsidiary of May, and the purchase of Strawbridge and Clothier, a chain of department and discount stores in Philadelphia, PA, and incorporated both of those transactions into the long range planning process of May.

- In 1998, I modeled and planned the capital structure for the acquisition of Mercantile Stores, eventually resulting in the acquisition of The Jones Store, a department store chain in Kansas City, MO, and the acquisition of Castner Knott, a department store chain in Nashville, TN, which required incorporation into the five-year plan.

- In 1999, I planned, modeled, and funded the acquisition of Zion's Cooperative Mercantile Institution, a chain of department stores in Salt Lake City, UT, and modeled its impact on the five-year plan.

- In 2000, I planned, modeled, and funded the acquisition of David's Bridal, the largest bridal gown business in the U.S. This acquisition added a new complication to the five-year planning process since it immediately moved May into the position of the largest seller of bridal gowns in the country.

- In 2001, I planned, modeled and funded the acquisition of After Hours Formalwear, at the time the largest tuxedo rental business in the U.S. This acquisition, too, resulted in a major change in the five-year planning process as May became the number one retailer in the business of renting tuxedos, which included becoming the largest dry cleaner in the U.S.

- In 2002, I planned and modeled the acquisitions of Pricilla of Boston.

- In 2003, I planned, modeled, and funded the $3.2 billion purchase of Marshall Field's, a department store chain in Chicago, IL, resulting in one of the biggest re-planning efforts in the history of the May five-year planning process.

5. During my tenure at May, the company also internally restructured from 25 operating divisions down to seven operating divisions. Each of those mergers or divestitures of divisions required a plan that rolled into the company's five-year plan.

6. Each of the projects described above required valuing the new or acquired business before integration into May, and a restructuring plan that included modeling the projected

performance of the new or acquired business upon its integration into May. I was directly involved in modeling both of these scenarios for each of the transactions described above. The success of May's mergers required forecasting and managing reductions in the expense structure, the elimination of senior management staff, and the combination of buying staffs. Our forecasts modeled the tradeoff between short-term cost savings and the impact to sales, gross margins, and ROI in both the short and longer terms.

7. From 1985 through 2005, I was also responsible for evaluating the performance of May's competitors, including Sears, and comparing their performance to May's performance for the May Finance Committee. In any given year, I was responsible for the quarterly evaluations of approximately 25 public retailers that competed with some aspect of May's business. Therefore, I examined a wide range of retailers' quarterly performance based on their ROI, leverage, revenue or "top line" performance, net income or "bottom line" performance, and measures between those two lines, including gross margin performance, selling general and administrative ("SG&A") expenses, tax rate, and one-time events.

8. I left May after it was acquired by Federated Department Stores (now Macy's, Inc.), and founded a retail consulting company, J. Rogers Kniffen Worldwide Enterprises, which I continue to run. In this role, I provide financial and management consulting services to the retail and apparel industry and investors in the retail business on topics such as acquisition due diligence, benchmarking, competitive analyses, financial analysis, investor relations, and market assessments. I regularly appear as a contributor for retail news on CNBC and I am frequently quoted in the media on topics related to the retail and apparel industry. I hold an MBA degree from Lindenwood University in Missouri.

9. My extensive knowledge about Sears and Kmart long precedes my current role as an executive in the retail and retail consulting business. May regarded Sears as both a competitor and a partner in anchoring malls. My team and I evaluated Sears and its performance every quarter for twenty years and reported our evaluations to May's Board of Directors. I also note that May's senior executives, including myself, were required to read The Big Store, a book published in 1988 about the challenges facing Sears and management's response so that we could learn from Sears's mistakes and successes in

department store and mass merchant retailing. I have continued to follow Sears as a retail investment consultant and have publicly commented on its performance as an expert on CNBC.

10. A copy of my CV is attached as **Appendix A**, which includes my past expert testimony. My standard hourly rate, which I am charging on this matter, is $975. My compensation is not contingent upon the substance or nature of the opinions that I form or the outcome of this case. Others working under my supervision and direction have assisted me in this matter. I have not written any books nor had any peer reviewed research published in the last 10 years. My various writings can be found on my website, https://www.jrkwwe.com.

B. Assignment

11. On October 15, 2018, Sears Holdings Corporation ("Sears" or the "Company") filed for bankruptcy. On January 17, 2019, ESL Investments, Inc. ("ESL") was declared the winner of an auction with a bid of $5.2 billion.[1] I have been retained by counsel for the Official Committee of Unsecured Creditors of Sears to analyze the viability of post-bankruptcy Sears (also referred to as "Sears NewCo") following its proposed acquisition by ESL. Specifically, I was asked to review the proposed business plan for reorganized Sears and to assess the reasonableness of ESL's financial projections and liquidity forecast (collectively referred to as the "2019 ESL Business Plan" or the "Plan" in my report).[2]

C. Materials Considered

12. My opinions are based on the materials referenced in this report and my more than 40 years of experience as a senior executive in finance and in operational roles in the retail and apparel industry and as a consultant evaluating retailers and their performance. My research and analysis focused on the following topics: (a) Sears's financial performance

---

[1] *See* Lauren Thomas & Lauren Hirsch, "Sears Announces Lampert's Hedge Fund, ESL, as Winning Bid in Bankruptcy Court Auction," *CNBC* (Jan. 17, 2019 11:36 AM), https://www.cnbc.com/2019/01/17/sears-announces-esl-as-winning-bid-in-bankruptcy-auction.html.

[2] *See* ESL Investments, *Project Transform – Business Plan*, January 2019 [hereinafter "2019 Project Transform Business Plan"] (RS_UCC_00000682); ESL Investments, Project Transform – *Liquidity Analysis*, January 14, 2019 [hereinafter "2019 Project Transform Liquidity Analysis"] (ESL-UCC-00005178).

prior to bankruptcy, (b) the restructuring and other business initiatives proposed by ESL, (c) related historical experience of department stores, big box stores, and other similar retailers, and (d) the current outlook for the retail industry. The types of materials referenced in this report, including industry reports and trends, company financial reports, financial projections, and restructuring plans, are the kinds of materials that experts like myself review on a regular basis as part of our profession. Counsel also provided me with the transcripts of interviews and depositions for key participants from Sears, ESL, and others involved in Sears's bankruptcy and proposed restructuring. A list of the materials I have considered is included in **Appendix B** to this report. I reserve the right to update my conclusions or opinions should additional information be provided to me and to supplement or to amend them to address any additional expert opinions offered in this proceeding.

II. Summary of Opinions

13. My primary opinion in this matter is that, given Sears's historical performance under ESL's ownership and control, its current position within the retail industry, and the current department store outlook, ESL's financial projections for a post-bankruptcy Sears are unrealistic and unreasonable. The Plan lacks innovative or new ideas to turn Sears's financial performance around, and instead simply assumes revenue growth and improved margins amidst significant proposed cost reductions. Based on my decades of experience compiling and assessing retail industry business plans and projections, including my prior knowledge of Sears, and my review of materials in this case, a more reasonable and realistic expectation is that, should Sears pursue the Plan, it would continue its longstanding, downward trajectory of divesting assets, cutting jobs, and losing money.

14. Under ESL's ownership and control for the past approximately 15 years, Sears has experienced poor financial performance, including significant revenue declines, as the Company underinvested in key aspects of the business and failed to respond to the competitive challenges and changes in the industry. The Company also prepared unrealistic financial forecasts during this period. Under ESL's ownership and control:

- Sears divested or closed thousands of stores and several brands and laid off the majority of its employees. Moreover, same-store sales also declined, which suggests that former customers of closed Sears stores turned to other retailers rather than to

the remaining Sears stores for their goods.

- Sears's management team minimally invested in its stores and overall business and failed to make strategic investments in the business necessary for Sears to remain competitive in an ever-changing retail environment. Indeed, Sears's management failed to adapt to the seismic shifts in the retail industry landscape. Three factors, in particular, have further stressed Sears's financial viability in recent years: (1) the continued growth and expansion of big box chains such as Walmart, Target, Home Depot, and Lowe's; (2) substantial expansion of online retail sales via Amazon and others; and (3) a decline in the type of regional malls where Sears had historically enjoyed success. These industry forces persist today and Sears, in its current weakened state, is not well positioned to compete.

- Sears's management team prepared unrealistic and overly optimistic sales and profitability targets. Based on the documents I have reviewed, Sears's management team prepared the Company's internal forecasts using a "bottoms-up approach." A bottoms-up approach derives company-wide forecasts based on aggregating business-unit level projections and budgets. However, I understand that Sears's management team would often then inflate the business-unit targets by, for example, adding so-called "go-gets," which are large, unexplained, and persistent gaps to what the people closest to the business believe are reasonable targets. In my opinion and based on my experience, such an approach does not produce reliable financial forecasts and contributed to the history of unrealistic financial planning for Sears.

- Sears's management team proposed plans to reverse the Company's deteriorating financial condition but these plans have proved unsuccessful.

15. In my opinion, numerous flaws in the 2019 ESL Business Plan render the financial projections contained therein unrealistic and unreasonable. The Plan relies on unproven initiatives that are speculative at best. With respect to the core brick and mortar business, the Plan offers little by way of new initiatives for revitalizing and improving the stores. Instead, it assumes increasing same-store sales, despite the longstanding downward trend, while also assuming improving gross margins and a significant reduction in SG&A expenses. The Plan's deficiencies include the following:

- The financial projections ignore failed historical efforts to improve Sears's profitability and instead simply assume improved future performance. The Plan contemplates continued store closings and divestitures, reducing the number of stores from 700 to 425. Even though the store closings over the past 8 years have failed to stabilize (let alone improve) same-store sales trends, the Plan projects increased same-store sales on a going forward basis. This, in my opinion, is a

critical flaw and unrealistic assumption in the Plan.

- The Plan includes significant cost cuts, including halving corporate SG&A from $1.2 billion to $600 million, with substantial layoffs in important corporate functions. In my experience, it is challenging to reduce costs with minimal disruption. Nonetheless, the Plan forecasts immediate improvement in gross margins and a rapid increase in same-store revenues. In my opinion, it is not realistic to assume an immediate or near-term reversal of a longstanding decline in sales and margins while also assuming a reduction in costs and the elimination or dramatic reduction of important corporate and operating functions.

16. In addition to the above flaws in the Plan's projections and underlying assumptions, Sears is seeking a new Chief Executive Officer ("CEO") to oversee the massive efforts contemplated by the Plan. Based on my experience in the industry, I expect that it will be difficult for Sears to attract and retain top level talent given its declining business and workforce, competitive landscape, and apparent pressures for management to achieve unrealistic targets.

17. The Plan also relies on the assumed success of prior efforts that, to date, have failed to improve Sears, as well as on minor strategic changes that are too small to justify the Plan's forecasts. For example, the Plan emphasizes the Shop Your Way ("SYW") loyalty program, but that program has been in existence for many years and the Plan fails to explain how SYW's future impact will exceed its impact to date. The Plan also references strategic ideas for the Kenmore brands, Sears Home Services, and other businesses that are simply too small to justify the Plan's forecasts.

18. Thus, I conclude that it is highly speculative to presume that ESL and Sears can achieve this Plan. To the contrary, it is more reasonable to expect that Sears would continue closing stores, laying off employees, and shrinking the business.

III. Under the Ownership and Control of ESL, Sears Has Had a History of Poor Financial Performance, and Has Underinvested in Key Aspects of the Business, and Failed to Respond to Competitive Challenges and Changes in the Industry

19. In this section of my report, I describe Sears's financial performance during the nearly 15-year period that ESL has controlled it. I also describe, at a high level, key industry forces that have contributed to Sears's difficulties. During this period, ESL formulated periodic business plans, which included targets that Sears typically missed by large amounts. In my opinion, Sears's historical performance, industry trends, and the current

position of the Company provide an important foundation for assessing the reasonableness and reliability of the 2019 ESL Business Plan.

A. ESL Purchased Sears and Merged It with Kmart 15 Years Ago

20. Sears, Roebuck and Company was a chain of department stores founded in 1886.[3] ESL acquired the majority stake in Kmart Corporation as it emerged from bankruptcy in May 2003.[4] On November 17, 2004, ESL acquired Sears, Roebuck and Co. and merged it with Kmart to form Sears Holdings Corporation. Following the transaction, Mr. Edward Lampert, the founder of ESL, served as the Chairman of the combined entity and ESL has since controlled the operations of the combined entity.[5]

21. Sears's core operating business segments consist of Sears and Kmart retail stores, home delivery services ("Innovel"), auto services ("Sears Auto Center"), and appliance installation, repair, and maintenance services ("Sears Home Services").[6] The Sears and Kmart retail stores account for over 80 percent of Sears's sales.[7] As of November 3, 2018, Sears operated a network of 766 full-line and specialty stores in the U.S. under the Sears and Kmart brand names.[8] Sears also had a presence online through sites including Sears.com, Kmart.com, and ShopYourWay.com.[9] Online sales represented 16 percent of Sears's total sales in 2018.[10] In addition to the retail and services business, Sears also operated proprietary brands including Kenmore and DieHard.[11] Among these brands,

---

3 *See* Sears, Roebuck and Co., 2003 Form 10-K, filed Mar. 10, 2004, pp. 2-3.

4 *See* Kmart Holding Corp., 2004 Form 10-K, filed Mar. 9, 2005, p. 11; *see also* Andrew Bary, "Attention! *See also* Kmart Holders," *Wall St. J.*, July 19, 2004, https://www.wsj.com/articles/SB109002109223466280; Constance L. Hays, "Market Place; A New Start, A New Name. But Have Things Really Changed as Kmart Comes Out of Bankruptcy?" *N.Y. Times* (May 7, 2003), https://www.nytimes.com/2003/05/07/business/market-place-new-start-new-name-but-have-things-really-changed-kmart-comes.html.

5 *See* Sears, Roebuck and Co., 2004 Form 10-K, filed Feb. 23, 2005, p. 2.

6 *See* Sears Holdings Corp., 2017 Form 10-K, filed Mar. 23, 2018, pp. 2-4.

7 *See* 2019 Project Transform Business Plan, p. 40 (RS_UCC_00000682 at RS_UCC_00000722).

8 *See* Sears Holdings Corp., 2018 Form 10-Q for Quarterly Period Ended November 3, 2018, filed Dec. 13, 2018, p. 9.

9 *See* 2019 Project Transform Business Plan, p. 40 (RS_UCC_00000682 at RS_UCC_00000722).

10 *See* 2019 Project Transform Business Plan, p. 40 (RS_UCC_00000682 at RS_UCC_00000722).

11 *See* Sears Holdings Corp., 2017 Form 10-K, filed Mar. 23, 2018, pp. 2-3.

Kenmore is the most significant with approximately 8.8 percent share of the appliance market.[12] DieHard's share of the auto battery market is approximately four percent.[13]

B. Sears's Financial and Operational Deterioration Long Precedes Its Bankruptcy Filing

i. Sears's Business Has Been Declining for Over a Decade

22. Sears has been declining for over a decade, despite management's attempts to improve the business. Sears's deterioration is characterized by its poor financial performance and much smaller physical footprint for its brick and mortar stores.[14]

23. Sears's deterioration is well-recognized by industry analysts and the media more broadly. In February 2017, I expressed my own doubts on CNBC about Sears's promise to effect a turnaround through $1 billion in further cost reductions. At that point, Sears had already engaged in repeated rounds of cost-cutting without achieving its desired turnaround. Thus, I explained on CNBC that, "the store quality has gotten worse, and the service has gotten worse, and the display has gotten worse. It's very hard to get better when you keep slashing expenses."[15] Industry analysts have also noted Sears's poor performance over at least the past seven years. For example:

- In January 2012, Standard and Poor's analysts described Sears Holdings as a "combination of two underperforming retailers" whose "sales and profitability had consistently declined" and that had "underinvest[ed] in its stores relative to peers."[16]

- In May 2017, Evercore ISI analysts stated that "[s]ales remain in a state of freefall decline" and that "[g]iven the very weak store base, continued comp declines, anemic sales productivity, and continued share loss in most major categories, [Sears] does not appear well positioned."[17]

---

12 *See* 2019 Project Transform Business Plan, p. 23 (RS_UCC_00000682 at RS_UCC_00000705).

13 *See* Sears Holdings Corp., Preliminary Business Plan, December 2018, p. 50.

14 2019 Project Transform Liquidity Analysis, p. 4 (ESL-UCC-00005178 at ESL-UCC-00005182).

15 Jan Kniffen, "Sears Can't Cut Costs Successfully: Pro," *CNBC* (Feb. 10, 2017 2:17 PM), https://www.cnbc.com/video/2017/02/10/sears-cant-cut-costs-successfully-pro.html.

16 Standard & Poor's Ratings Services, "Sears Holdings Corp.," Jan. 25, 2012, p. 2.

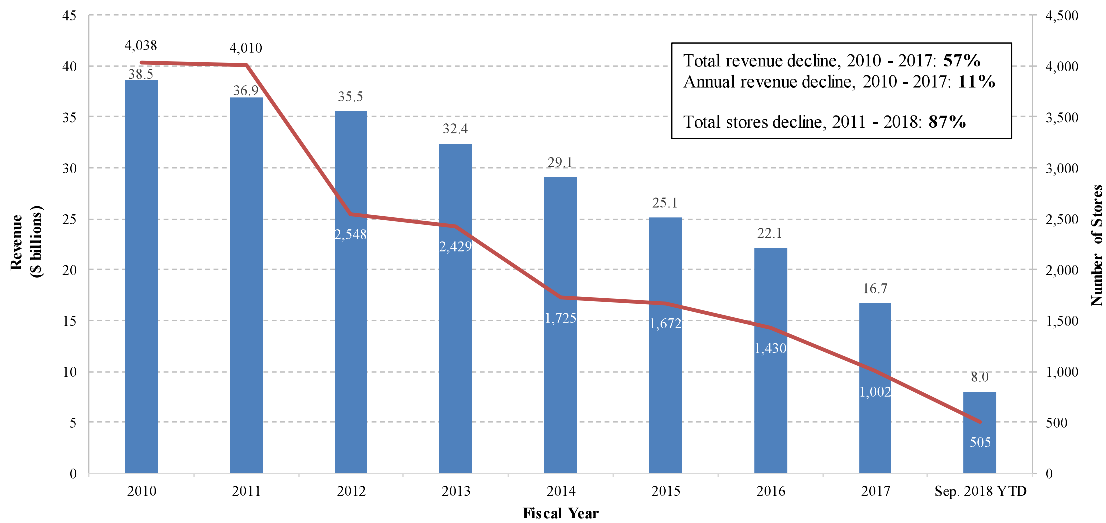
17 Evercore ISI, "1Q Update - Don't Fear the Reaper," May 25, 2017 [hereinafter Evercore ISI, "Don't Fear the Reaper"], pp. 1-2.

- In June 2018, Susquehanna Financial Group analysts noted that “Sears’ core operations continue to decline and we remain as doubtful as ever on the management’s ever-ongoing turnaround plan. The environment for Sears is only going to get more competitive as other larger, more profitable retailers get a boost from lower tax rates and reinvest in their business, which Sears would not be able to do. Sears also faces higher borrowing costs due to elevated debt levels and rising interest rates.” The analysts also stated that “Sears’ return to profitability is a very bumpy road, and we expect Sears will continue to pare corporate expenses and reduce headcount as it struggles to survive. Further store closures and asset sales are imminent.”[18]

- In October 2018, J.P. Morgan analysts stated that “We have been expecting Sears to file for bankruptcy for years, as the company has not generated positive EBITDA since 2012, and has burned cash (OCF – Capex) since 2010 (cumulatively >$11bn) … The writing has been on the wall as each successive real estate sale came at a lower valuation and each successive debt financing came at a higher cost.”[19]

24. As shown in Exhibit 1, Sears’s revenue declined more than 50 percent from 2010 to 2017, with a total decline of over $21 billion. Sears’s total revenues experienced an 11 percent annual decline over this period. Not surprisingly, this significant revenue decline adversely affected Sears’s operating profit.

Exhibit 1
Sears Historical Total Revenue and Total Number of Sears Stores
2010 - 2018

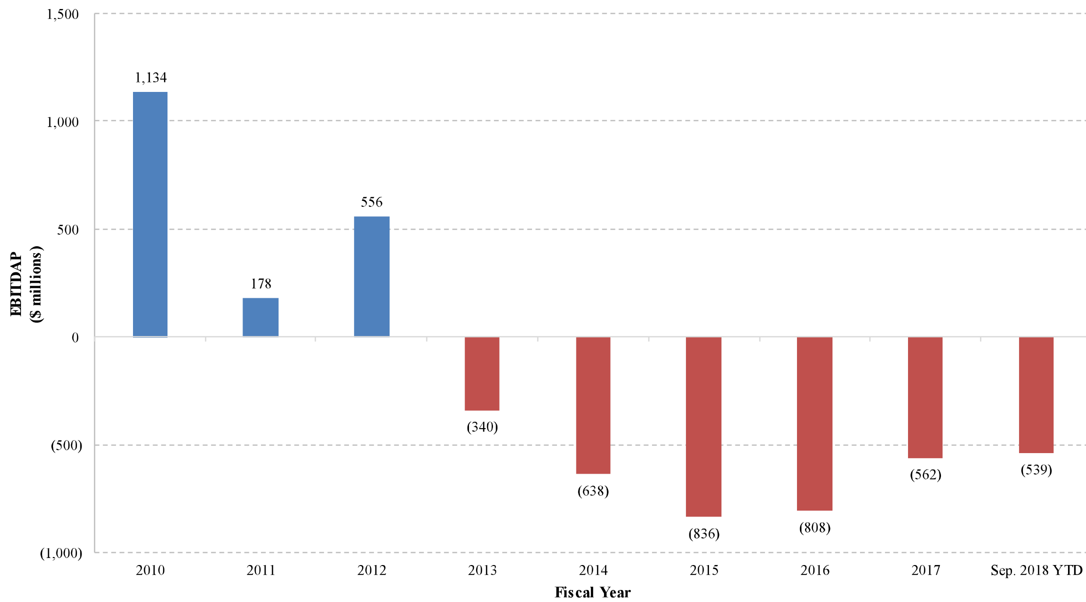


[18] Susquehanna Financial Group, “Sears Holdings: FQ1:18: Performance Erosion Accelerates as Corp Talking Points Ring More Hollow,” June 1, 2018, pp. 1-2.

[19] J.P. Morgan, “Digging Deeper: Another One Bites The Dust? Cross-Asset Class SHLD Primer Points & Laterals,” Oct. 11, 2018, p. 6.

25. As shown in Exhibit 2, Sears's earnings before interest, tax, depreciation, amortization and pension expense ("EBITDAP"), which is a standard measure of a company's operating performance, decreased from $1.1 billion in 2010 to $0.2 billion in 2011, recovering somewhat in 2012, before ultimately becoming negative in 2013, indicating the Company was operating at a loss.[20] Indeed, Sears's EBITDAP in 2013 was negative $340 million and Sears reported operating losses of more than $500 million in each subsequent year through 2017, including an EBITDAP loss of more than $800 million in 2015 and 2016.

Exhibit 2
Sears Historical EBITDAP
2010 - 2018



26. Sears closed stores in an attempt to counteract its deteriorating financial performance. As also shown above, the total number of Sears's brick and mortar stores nationwide declined from over 4,000 stores in 2010 to 505 stores by year-end 2018, or a decline of more than 87 percent. As I discuss later in Section IV, the 2019 ESL Business Plan anticipates just 425 stores nationwide.[21]

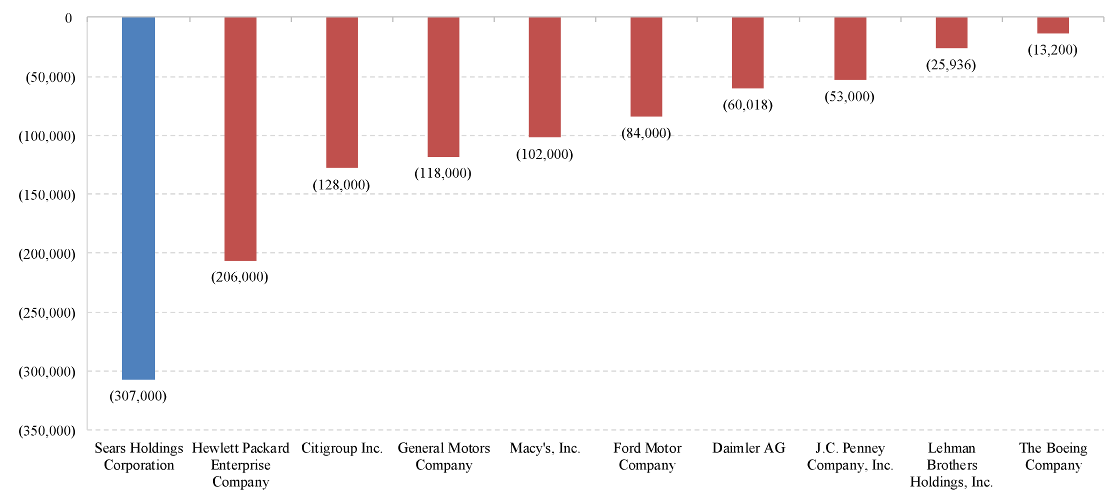
---

20 I understand that when Sears uses EBITDA it excludes pension payments, so it could also be labeled as EBITDAP.

21 *See* 2019 Project Transform Business Plan, p. 4 (RS_UCC_00000682 at RS_UCC_00000686). Note that the 2019 Liquidity Analysis indicates that 3 stores per month will be closed in 2019, bringing total store count down to 389. *See also* 2019 Project Transform Liquidity Analysis, p. 6 (ESL-UCC-00005178 at ESL-UCC-00005184).

27. Sears's past poor performance and store closures had a significant negative impact on its workforce over the last decade. As shown in Exhibit 3, Sears cut 307,000 jobs between 2007 and 2018, more jobs than any other major corporation during the same period. The total number of jobs that Sears cut is nearly 3.5 times the total number of employees that remained as of February 2018.[22] As shown in Exhibit 3, Hewlett Packard, which carried out the next largest number of job cuts over the same period, cut approximately one-third fewer jobs than Sears. Notably, the 2019 ESL Business Plan, which I discuss in greater detail in Section IV, claims to save 45,000 jobs. Given that Sears had 68,000 employees at the time it filed for bankruptcy, it would need to cut one-third of its existing employees to achieve the 45,000 headcount forecasted in the Plan.[23]

Exhibit 3
Total Job Cuts
2007 - 2018



28. In addition to retail store difficulties, the major brands still owned by Sears have also faltered. The Kenmore brand had historically held a sector-leading position in the appliances market.[24] However, as of 2018, Kenmore accounted for only 8.8 percent of the

---

[22] *See* Exhibit 24.

[23] *See* Alistair Gray, "Sears Races to Avoid Outright Liquidation after Bankruptcy Filing," *Fin. Times* (Oct. 15, 2018), https://www.ft.com/content/57cd862a-d038-11e8-a9f2-7574db66bcd5. *See also* 30(b)(6) Deposition of ESL Investments, Inc., by Its Corporate Representative Kunal Kamlani at 153, *In re: Sears Holdings Corp., et al.* (Jan. 23, 2019) [hereinafter "Kamlani Dep."].

[24] *See, e.g.*, Chris Isidore, "How the Once-Proud Kenmore Brand Ended Up On the Scrap Heap," *CNN Business* (Sept. 4, 2018 1:03 PM), https://money.cnn.com/2018/09/01/news/companies/sears-kenmore/index.html; Jan Wolfe, "Sears' Plan to Sell Brands No Salve for Financial Woes," *Reuters* (Mar. 23, 2017), https://www.reuters.com/article/us-sears-restructuring-brands-analysis/sears-plan-to-sell-brands-no-salve-for-financial-woes-idUSKBN16U2PX.

major appliance market share and had declined from the top position in appliances to the 5th place.[25] The brand's value has declined along with its loss of market share. Sears valued the Kenmore brand at $2 billion more than fifteen years ago, and yet by May 2017, retail analysts valued the brand at only $750 million.[26] In August 2018, ESL itself offered to buy Kenmore for $400 million, or 20 percent of its original value.[27] Similarly, the market share of Sears's automotive brand DieHard has also decreased.[28]

ii. Sears Has Underperformed Compared to Its Competitors

29. In this section, I compare the financial performance of Sears to the firms listed as comparable in the combination of analyst reports, Thomson, and Capital IQ, and show that Sears has underperformed relative to its peers. In particular, I compared Sears to Macy's, Kohl's, J.C. Penney, Dillard's, WalMart, Home Depot, Target, Lowe's, and Best Buy. Exhibit 4 compares Sears's same-store sales growth to the same-store sales growth reported by these comparable firms. As shown, Sears's same-store growth was significantly worse than each of the comparable firms in 2015, 2016, and 2017.

---

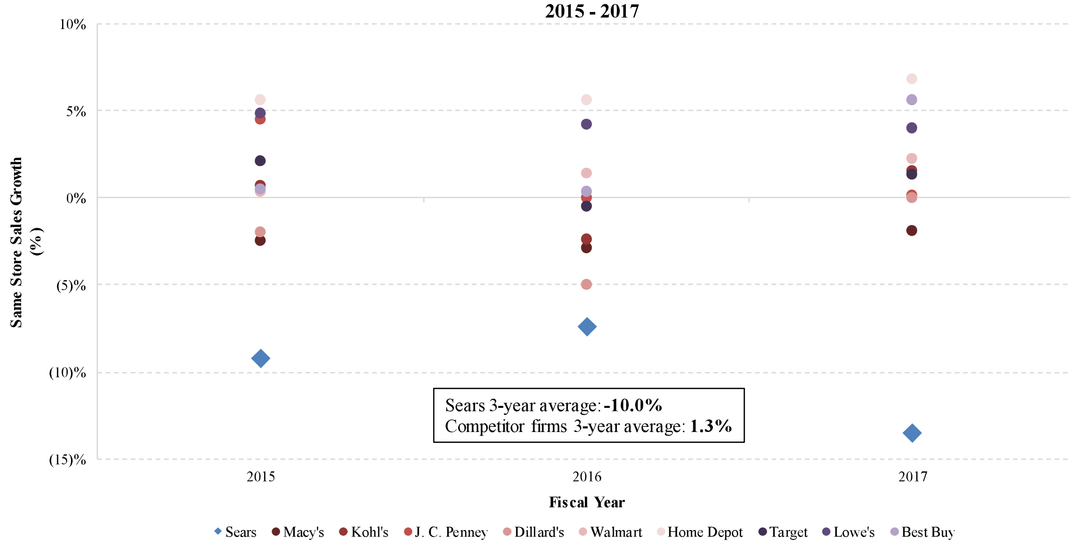
25 *See* 2019 Project Transform Business Plan, p. 23 (RS_UCC_00000682 at RS_UCC_00000705).

26 *See* Isidore, *supra* note 24.

27 *See* Kanishka Singh, "Sears CEO's Hedge Fund Offers to Buy Kenmore Brand for $400 Million," *Reuters* (Aug. 14, 2018 8:09 PM), https://www.reuters.com/article/us-sears-holding-divestiture/sears-ceos-hedge-fund-offers-to-buy-kenmore-brand-for-400-million-idUSKBN1L000C; *see also* Evercore ISI, "Don't Fear the Reaper", *supra* note 17, p. 3.

28 Wolfe, *supra* note 24.

Exhibit 4
Comparison of Sears and Select Competitors
Same Store Sales Growth
2015 - 2017



C. ESL and Sears Failed to Respond to Competitive Challenges and Changes in the Industry

30. Sears's significant operational and financial difficulties, which I have described above, reflect major industry-wide changes in the highly competitive retail environment. In this section, I explain how under ESL's management, Sears underinvested in key aspects of the business and divested assets from the business, rendering Sears unable to effectively compete in the changing industry. Although Sears's management engaged in initiatives intended to address Sears's problems, the efforts failed to improve Sears's performance. Instead, as I described earlier, Sears continued to reduce assets, jobs, and revenue.

i. Sears Is Ill-Prepared to Face Industry-Wide Headwinds

31. The retail industry is a highly competitive environment that has gone through significant changes in the last decade. Industry observers widely recognize that the retail environment for Sears's mall-based stores and discount stores has reached historic difficulty levels, as, among other things, Walmart, Target, Costco, Home Depot, Lowe's, and Amazon have grown in strength.[29] Additionally, the malls in which mall-based

29 *See* Chris Isidore, "Things Are Bad at Sears. They're Worse at Kmart," *CNN Business* (Oct. 21, 2018 4:10 PM), https://www.cnn.com/2018/10/21/business/sears-bankruptcy-kmart/index.html; *see also* S&P Global Ratings, "Research Update: Sears Holdings Corp. Downgraded to 'CCC' from 'CCC+' on Need to Address Mid-2018 Maturities; Outlook Negative" (Oct. 27, 2017), p. 3.

retailers like Sears operate have experienced a consistent decline in traffic, unabated even by what is arguably the best consumer environment in decades.[30]

32. Various financial and operational measures demonstrate the challenges in the retail industry generally. For example, in 2017, the five-year retail revenue growth rate among the top 250 companies in the retail industry was down to 3.3 percent, having declined from 9.1 percent in 2006 and 5.4 percent in 2011.[31] Similarly, the median Return on Assets ("ROA") in the retail industry declined to approximately 6 percent, which was lower than the ROA during the financial crisis in 2008 and 2009.[32] As shown in Exhibit 5, department store sales have been declining since 2006, reaching declines as deep as 7 percent in 2016.

Exhibit 5
U.S. Department Store Sales Growth
2002 - 2018

33. The number of retail store closures peaked in 2017 with 8,640 store closings. 2018 included store closures by large-scale retailers such as Toys "R" Us and Sam's Club.[33]

---

30 *See, e.g.*, The Conference Board, "The Conference Board Consumer Confidence Index Increased Again in October" (Oct. 30, 2018).

31 *See* Deloitte, "Global Powers of Retailing 2019," p. 12; Deloitte, "Global Powers of Retailing 2018," p. 10.

32 The equivalent ROA in 2006 was 9.5 percent. *See* Deloitte, "2019 Retail Outlook," p. 5.

33 *See* Credit Suisse, "Apparel Retail & Brands: Making Sense of Softlines Following a Tumultuous Twelve Months" (May 2017), p. 10.

Several other retail companies filed for bankruptcy in 2018. In February 2018, Bon-Ton Stores Inc., one of the largest department store companies in the country, filed for bankruptcy with nearly $1 billion in debt.[34] A month later, the mall-based retailer Claire's filed for bankruptcy as declining mall traffic made it difficult to meet its debt obligations.[35] Soon after, in April 2018, the retailer Nine West Holdings, owner of the Nine West and Anne Klein apparel brands, filed for bankruptcy in hopes of reducing its debt load and focusing on its more profitable brands.[36] Gymboree, a retailer of children's apparel, filed for bankruptcy twice. The company was restructured after the June 2017 filing, but survived for just 18 months and has now commenced a second bankruptcy proceeding in which it intends to cease operations and liquidate.[37]

34. The rise of e-commerce is a significant driver of the traditional brick and mortar retailers' financial and operational challenges. Industry experts expect this trend to continue. In 2017, online retail sales accounted for approximately 12 to 13 percent of all retail sales.[38] Retail industry experts expect that, by 2022, online sales will account for between 17 to 20 percent of all U.S. retail sales, and will account for 25 percent of U.S. retail sales within the next decade.[39] Similarly, according to industry analysts, under a scenario

---

[34] *See* Jessica DiNapoli, "Bon-Ton Stores Clinches Bankruptcy Financing-Sources," *Reuters* (Feb. 2, 2018 4:02 AM), https://www.reuters.com/article/bon-ton-stores-bankruptcy/bon-ton-stores-clinches-bankruptcy-financing-sources-idUSL2N1PR2BC.

[35] *See* Matt Egan, "Retail Defaults Soar to Record High in 2018," *CNN Business* (Apr. 10, 2018 12:29 PM), https://money.cnn.com/2018/04/10/investing/retail-defaults-sears-moodys/index.html?iid=EL.

[36] *See* Danielle Wiener-Bronner, "Nine West Files for Bankruptcy," *CNN Business* (Apr. 6, 2018 4:19 PM), https://money.cnn.com/2018/04/06/news/companies/nine-west-bankruptcy/index.html?iid=EL.

[37] *See* Phil Wahba, "Gymboree Plans to Close After Post-Bankruptcy Comeback Fails," *Fortune*, (Jan. 17, 2019), http://fortune.com/2019/01/17/gymboree-liquidation/; Lauren Thomas, "Gymboree Files for Chapter 11 Bankruptcy; CFO Leaves Retailer," *CNBC* (June 12, 2017 11:42 AM), https://www.cnbc.com/2017/06/12/gymboree-files-for-chapter-11-bankruptcy-cfo-departs-retailer.html.

[38] *See* Daniel Keyes, "E-Commerce Will Make Up 17% of All US Retail Sales by 2022 – and One Company Is the Main Reason," *Business Insider* (Aug. 11, 2017 11:12 AM), https://www.businessinsider.com/e-commerce-retail-sales-2022-amazon-2017-8.

[39] *Id.*; UBS, "Q-Series: eCommerce Migration: How Will Penetration Rates Evolve by Category? (Revised)" (Dec. 19, 2018); *See also* FTI Consulting, "2017 U.S. Online Retail Forecast" (Oct. 16, 2017), https://www.fticonsulting.com/insights/reports/2017-us-online-retail-forecast; FTI Consulting, "2018 U.S. Online Retail Forecast" (Sept. 10, 2018), https://www.fticonsulting.com/insights/articles/2018-us-online-retail-forecast.

where overall U.S. retail sales grow by 3 percent, brick and mortar stores could only expect to achieve annual sales growth of 1 percent.[40]

35. The downturn in Sears's financial performance coincided with the decision by Sears's management to transform Sears into an "asset light" retailer instead of a more traditional brick and mortar retailer. Sears added an online and what is known as an "omni-channel" (or integrated online and offline shopping experience) strategy to better compete with Amazon and other online retailers. However, Sears lagged behind other competitors, like Walmart and Target, who were already moving aggressively online and investing heavily in omni-channel retailing by, for example, implementing buy online, pick up in store, ship to store, ship from store, and return to store options.[41]

36. Sears's online revenues peaked at $4.2 billion in 2013 and have since declined to $1.4 billion in 2018.[42] This decline is especially dramatic when considering the growth in the overall U.S. e-commerce market. As shown in Exhibit 6, Sears's online business was also not profitable. The average EBITDAP margin for Sears's online business was negative 3 percent between 2010 and 2017.

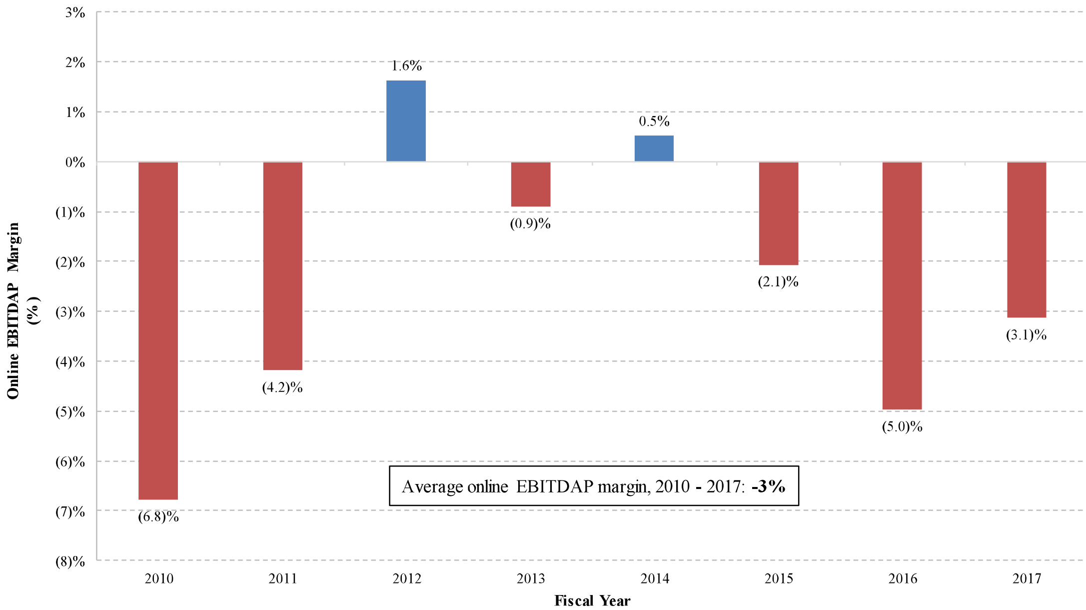
---

40 UBS, *supra* note 39. This projection is also in line with Green Street Advisors's prediction that two-thirds of sales growth will come from the increase in e-commerce over the foreseeable future. *See* Green Street Advisors, LLC, "Retail: Survival of the Fittest."

41 *See*, *e.g.*, CBInsights, "Surviving the Retail Apocalypse" (2018), pp. 40–46; *see also* Fareeha Ali, "Sears Is Bankrupt: Missed E-Commerce Opportunities and Poor Omnichannel Execution Contributed to Sears' Decline" (Oct. 15, 2018), https://www.digitalcommerce360.com/2018/10/15/sears-files-for-bankruptcy-as-e-commerce-stalled-for-years/.

42 2019 Project Transform Business Plan, p. 40 (RS_UCC_00000682 at RS_UCC_00000722); *see also* Ali*,* *supra* note 41.

Exhibit 6
Historical Sears Online EBITDAP Margin
2010 - 2017



37. The decline of regional malls has also adversely impacted Sears. Industry analysts expect between 20 to 25 percent of all U.S. malls to close between 2017 and 2022.[43] Enclosed malls in the U.S., with the exception of top tier class-A malls, have experienced a decline in traffic and industry experts expect these lower tier malls to continue to deteriorate. Sears, however, divested stores in top tier Class-A malls, including, for example, its stores in the King of Prussia Mall and the Ala Moana Center.[44] As a result, more than 70 percent of the remaining Sears stores are in middle tier (class B and C) malls that

---

43 *See* Credit Suisse, "Apparel Retail & Brands: Making Sense of Softlines Following a Tumultuous Twelve Months" (May 2017), pp. 13-14.

44 *See* International Council of Shopping Centers, "Shopping for the Truth: Time Well Spent" (Jan. 24, 2019); Natalie Kostelni, "Sears to Close at King of Prussia Mall," *Phila. Bus. J.* (October 20, 2014 12:54 PM), https://www.bizjournals.com/philadelphia/blog/real-estate/2014/10/sears-to-close-at-king-of-prussia-mall.html?s=print; Lauren Thomas, "America's 10 Most Valuable Malls Are Bringing in Billions in Sales. Here's Where They Are," *CNBC* (Jan. 29, 2018 12:02 PM), https://www.cnbc.com/2018/01/29/americas-10-most-valuable-malls-are-bringing-in-billions-in-sales-heres-where-they-are.html; "Sears Closes Ala Moana Center Store in Honolulu," *Pacific Bus. News* (June 3, 2013 12:55 PM), https://www.bizjournals.com/pacific/blog/morning_call/2013/06/sears-closes-ala-moana-center-store-in.html.
Sears reopened an Ala Moana location in November 2017; however, the reopened store only features appliances and mattresses. *See* HNN Staff, "Sears Is Back at Ala Moana (But Not Like You Remember It)," *Hawaii News Now* (Nov. 9, 2017 1:23 AM), http://www.hawaiinewsnow.com/story/36800809/sears-to-reopen-in-ala-moana-center-after-4-year-hiatus/.

generate less than $500 per square foot of retail space.[45] And as I mention below, Sears, with $150 in sales per square foot, is near the bottom end for the middle tier malls.[46] Industry analysts expect continued problems for malls rated class-B and below given the rapidly changing mall landscape.[47]

38. Based on my professional experience, I would expect Sears, in particular, to encounter challenges given recent changes in the mall landscape. For example, Bon-Ton, as described above, recently closed all of its stores after filing for bankruptcy in February 2018. A high percentage of Sears's remaining brick and mortar stores are in the same malls as Bon-Ton's recent closures, which could further deteriorate these malls and thus further hurt Sears's traffic and sales in these malls.[48]

39. At the same time, Sears continues to face increased competition from other big box retailers such as Home Depot, Lowe's, Target, and Walmart. The proximity of these retailers' stores to Sears's stores increases their direct competition with Sears. Currently, 81 percent of Sears's stores are within five miles of a Home Depot store and 71 percent are within five miles of a Lowe's store.[49] Similarly, 80 percent of Sears's stores are within a fifteen minute drive of a Home Depot, Lowe's, or Best Buy store. Indeed, within the appliance retail industry, Sears holds the third largest market share behind both Lowe's and Home Depot (Sears holds 15.3 percent compared to Lowe's 25.8 percent and Home Depot's 17.1 percent shares).[50]

---

45 *See* Jennifer Duell Popovec, "Performance Gap Grows within the B Mall Sector," *Nat'l Real Estate Investor* (Nov. 13, 2014), https://www.nreionline.com/retail/performance-gap-grows-within-b-mall-sector; Liz Wolf, "Sears Will End Up in Liquidation, Say Experts, Proving a Mixed Blessing for Mall Landlords," *Nat'l Real Estate Investor* (Oct. 18, 2018), https://www.nreionline.com/retail/sears-will-end-liquidation-say-experts-proving-mixed-blessing-mall-landlords.

46 *See* ISI, "Sears Holdings (SHLD): 'We May Continue to Experience Challenges in our Financial Performance…'" (Aug. 21, 2014), p. 10.

47 *See* Laura Sanicola, "America's Malls Are Rotting Away," *CNN Business* (Dec. 12, 2017 8:12 PM), https://money.cnn.com/2017/12/12/news/companies/mall-closing/index.html.

48 *See* Credit Suisse, "US Store Closures Monitor: 2018 on Track for Another Peak Square Footage Closure Year" (Apr. 23, 2018), p. 6.

49 *See* Kevin Curran, "Chart of the Day: Home Depot and Lowe's Go Head to Head in Home Improvement," *Real Money* (Nov. 12, 2018 2:37 PM), https://realmoney.thestreet.com/investing/stocks/chart-of-the-day-home-depot-and-lowes-go-head-to-head-in-home-improvement-14777735.

50 *See* 2019 Project Transform Business Plan, p. 6 (RS_UCC_00000682 at RS_UCC_00000688); Edmund Mander, "Best Buy, Home Depot, Lowe's Have Most to Gain from Sears Closures, Study Finds," *Int'l Council of Shopping Ctrs.* (2019), https://www.icsc.org/news-and-views/icsc-exchange/home-depot-lowes-best-buy-gain-most-from-sears-closures-study-finds.

40. Similarly, Sears's apparel business has faced strong competition from other retailers. For example, according to industry analysts, over 25 percent of surveyed U.S. internet users had purchased apparel from Walmart, Amazon, Target, and Kohl's as of January 2018. In comparison, only 6.7 percent and 6.1 percent of users had purchased apparel from Sears and Kmart, respectively.[51]

ii. Sears Underinvested in Key Aspects of the Business

41. Traditional retailers like Sears need to invest in their brick and mortar stores and back-office systems to keep the stores and systems "up-to-date" and to satisfy the customer experience. Moreover, retailers like Sears also need to invest significant resources in online platforms to capture the growing e-commerce market. In my opinion, based on my professional experience and review of the case materials, Sears's management under ESL's ownership failed to adequately invest in these critical aspects of the business. These failures further exacerbated the industry-wide challenges described earlier.

42. First, as part of my regular visits to both mall-based locations of Sears and off-mall locations of Kmart, I would judge Sears stores as among the least attractive mall anchors, and Kmart stores as outdated. In my opinion, the physical appearance of these stores, which directly affects the consumer experience and therefore store sales, shows signs of insufficient maintenance capital expenditures and is inferior to that of Target and Walmart stores. I further note that Walmart has also aggressively scaled up its online business to capture industry trends, with its online sales projected to increase from $11 billion in 2017 to $42 billion by 2022.[52]

43. I evaluated Sears's capital expenditures, which further support my assessment that Sears has failed to make the capital investments required to succeed in the rapidly changing retail industry. In 2018, Sears's net capital expenditures ("CapEx") as a percentage of total sales was 0.5 percent, which is far below the retail industry average of 1.7 percent.[53]

---

51 *See* Krista Garcia, "The State of US Apparel in Five Charts," *eMarketer Retail* (Apr. 27, 2018), https://retail.emarketer.com/article/state-of-us-apparel-shopping-five-charts/5ae2106bebd4000b78fe1517.

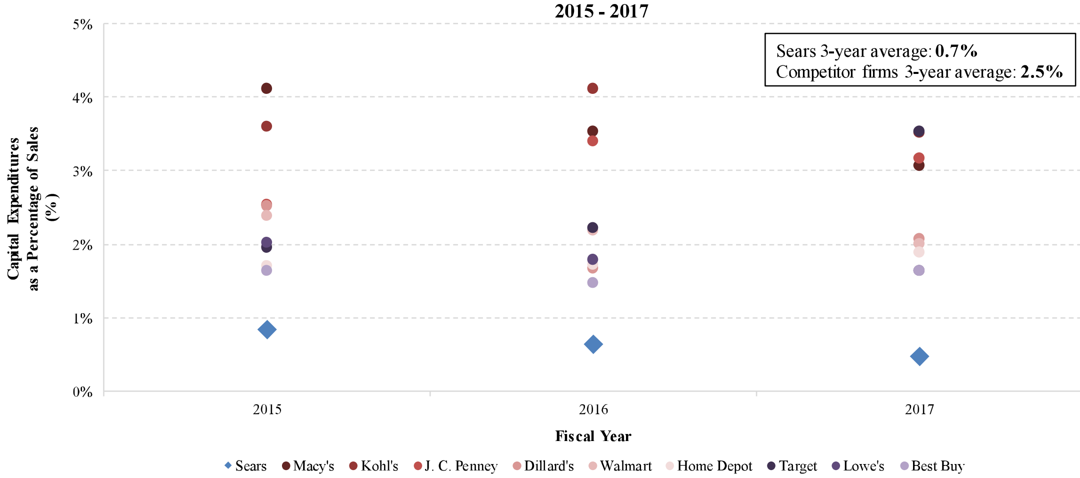
52 *See* FTI Consulting, "2017 U.S. Online Retail Forecast" (Oct. 16, 2017), p. 3.

53 *See* Aswath Damodaran, NYU Stern, "Capital Expenditures by Sector (US)," http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/capex.html (last visited Jan. 26, 2019); Sears Holdings Corp., 2017 Form 10-K, filed Mar. 23, 2018, p. 25.

On a per square foot of retail space basis, Sears's CapEx spending in 2017 was as low as 91 cents, while one of Sears's main appliance competitors, Best Buy, invested $15.36 of CapEx per square foot, higher by a factor of 16.9.[54]

44. I also evaluated Sears's CapEx relative to the CapEx of comparable firms. Exhibit 7 compares Sears's CapEx as a percent of sales to the same figure for the firms listed as comparable in the combination of analyst reports, Thomson, and Capital IQ. Between 2015 and 2017, as shown, Sears had the lowest CapEx relative to sales within this group, indicating that Sears severely underinvested in its business compared to its competitors. For Sears, the average capital expenditure as a percentage of sales was 0.7 percent, whereas the average of this measure for its comparable companies was 2.5 percent.

Exhibit 7
Comparison of Sears and Select Competitors
Capital Expenditures as a Percentage of Sales
2015 - 2017

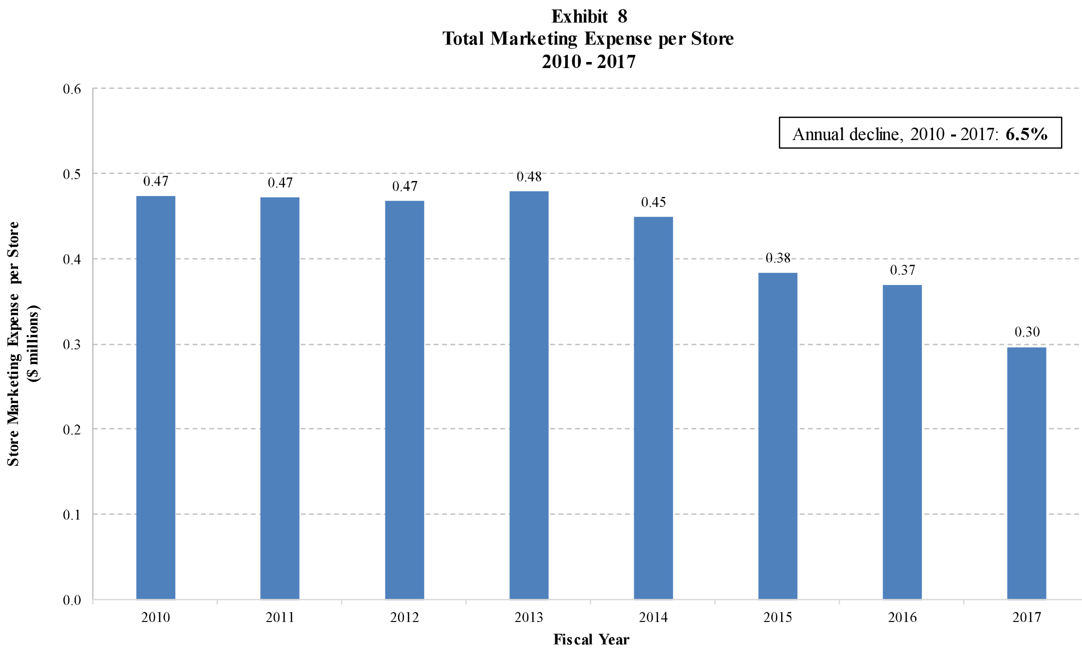


45. Similarly, Exhibit 8 shows that Sears's total marketing spending per store has declined in recent years. The total marketing spending per store dropped from approximately $0.5 million in 2010 to $0.3 million in 2017, representing an average annual decline of over 6.5 percent. In addition, Sears cut $99 million from the marketing budget in November 2018, largely involving digital marketing with Google, Yahoo, and the like.[55]

---

54 *See* Nathan Bomey & Charisse Jones, "Sears, Kmart Stores Ailing as CEO Eddie Lampert's Hedge Fund Gets Hundreds of Millions," *USA Today* (June 18, 2018 1:50 PM), https://www.usatoday.com/story/money/2018/06/18/sears-ceo-eddie-lampert-kmart/638218002/.

55 *See* ESL Investments, "Lender Presentation" (ESL-UCC-00004499); *see also* Kamlani Dep., p. 150.



46. These numbers are consistent with my experience and view that Sears has failed to invest in making its stores an attractive shopping experience for the consumer. Such chronic underinvestment has resulted in Sears stores losing their attractiveness. Sales per square foot for Sears stores was $154 in 2014, well below the figures for comparable companies like Kohl's ($229), Macy's ($189), Walmart ($432), or Home Depot ($350).[56] By suppressing such critical investments, Sears has limited its ability to compete.

iii. ESL Divested Sears's Assets Instead of Investing in the Business

47. Over the past decade and under ESL's control, Sears's strategy has focused on divesting assets as opposed to investing in critical aspects of the business. Amidst Sears's further financial erosion over the past five years, it has increasingly relied on asset sales to generate cash needed to satisfy its obligations and short-term cash needs.[57] Industry analysts have commented on this pattern. For example, in April 2018, an analyst report stated that Sears "has consistently divested assets over the past five years with no

[56] ISI, *supra* note 46, p. 10.

[57] This is relevant to my later assessment of the Plan, as ESL's past strategic choices regarding Sears further highlights the speculative nature of the Plan's forecasts and casts doubt on their feasibility.

apparent improvement in fundamental operations."[58] The report further observed that "[Mr.] Lampert appears to have become overconfident in his ability to turn around two struggling retailers, which was particularly challenging in the current retailing downdraft" and instead "has had much more success in realizing asset values than in operating retail stores."[59]

48. Several major transactions highlight Sears's pattern of divesting important assets from its business:

- In April 2014, Sears Holdings spun off the Lands' End brand for $500 million, significantly less than the $2 billion that Sears paid for the brand in 2002.

- In July 2015, Sears Holdings completed a sale-leaseback deal with Seritage Growth Properties, a newly formed real estate investment trust owned by Mr. Lampert and other shareholders. The deal generated $2.7 billion in cash for Sears, in exchange for 235 Sears and Kmart stores and a 50 percent stake in another 31 Sears properties jointly held with other real estate investors.[60] Retail analysts described these properties as the company's "last large monetizable asset" and as "the best [properties] in [the company's] portfolio," located in areas with higher population densities and income levels.[61] The remaining properties, they said, were "likely more of a liability than an asset."[62]

- In January 2017, Sears sold its Craftsman tool brand to Stanley Black & Decker, which provided Sears with an immediate cash injection of $525 million. Sears valued the deal at $900 million, including future promised cash flows.[63]

49. In my opinion, Sears's decision to sell Craftsman, which was an iconic tool brand that had been with Sears for 90 years, damaged Sears's potential to improve its market share. Moreover, the deal ended up creating additional competition after Lowe's struck a deal in

---

58 Susquehanna Financial Group, "Sears Holdings: Chairman Lampert Sends (and Receives) Break-Up Letter" (Apr. 23, 2018) [hereinafter Susquehanna Financial Group, Lampert Break-Up Letter], pp. 1-2.

59 *Id.*

60 *See* Press Release, Sears Holdings Corp., "Sears Holdings Completes Seritage Growth Properties Transaction" (July 7, 2015).

61 Evercore ISI, "Sears Holdings (SHLD): Seritage Update" (June 3, 2015), p. 1.

62 *Id.*

63 Paul R. La Monica, "Sears Sells Craftsman to Stanley Black & Decker," *CNN Business* (Jan. 5, 2017 2:33 PM), https://money.cnn.com/2017/01/05/investing/sears-sells-craftsman-stanley-black-decker/index.html.

fall 2017 to start selling Craftsman tools in its stores.[64] More generally, the above transactions simply provided cash that ultimately only delayed the Company's collapse. This opinion is consistent with remarks I made on CNBC's *Nightly Business Report* in 2017, following Sears's sale of the Craftsman tool brand:

> [O]nce you do some asset sales, you can go a little longer.… [But] basically they're selling the assets, they're taking the cash, they're putting it in the fireplace, and they're sending it up the chimney, because they keep losing so much money every quarter."[65]

50. My 2017 commentary is consistent with that offered by an industry analyst in April 2017:

> The primary concern here is that as SHLD attempts to get ahead of its sales decline and FCF burn by cost cutting, as the organization has shrunk, the operating results have gotten worse rather than better. Cuts to advertising, the cumulative effect of losing half of its Kmart stores and 28% of Full-line Sears in a decade, and persistent organizational headcount reduction are clearly shrinking customer mindshare and accelerating the decline in SHLD relevance. Without a stabilization of the topline, which we see no indication of occurring, SHLD will likely continue this downtrend. We expected a continuation of the vicious cycle SHLD has been caught in for the last 5 years where its sales and operating losses lead to closures and cost cutting insufficient to offset the sales decline. This will then require more asset sales and/or asset secured debt deals, but with the sales still shrinking the cycle repeats.[66]

iv. Sears's Past Initiatives Have Been Unsuccessful and Based on Unrealistic Plans

51. As early as 2013, Sears included multiple strategic initiatives aimed at turning around its struggling business in its annual management plans.[67] Exhibit 9 identifies the various initiatives outlined in these management plans over the years. As shown, many of the initiatives remained in management plans year after year and have been recycled yet again and included in the 2019 ESL Business Plan. For example, each annual

---

64 Chris Isidore, "Sears' Iconic Craftsman Tools Coming to Rival Lowe's," *CNN Business* (Oct., 24, 2017 1:25 PM), https://money.cnn.com/2017/10/24/news/companies/craftsman-lowes-sears/index.html.

65 NBR Staff, "Nightly Business Report – January 5, 2017," *NBR*, http://nbr.com/2017/01/05/nightly-business-report-january-5-2017/.

66 Evercore ISI, "The Vicious Cycle Down" (Apr. 24, 2017), p. 1.

67 *See, e.g.*, Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015 (RS_SHC_00015574); Sears Holdings Corp., 2016 Plan Update, Jan. 28, 2016 (Sears_ESL00012719); Sears Holdings Corp., 2017 Plan Update, Feb. 8, 2017 (Sears_ESL00015417).

management plan from 2013 through 2018 has included Sears's SYW loyalty program, which is also included in the Plan.[68] Similarly, each of the annual management plans included certain initiatives related to localized and targeted pricing, headcount reductions, SKU and vendor reduction, and digital and traditional marketing ROI improvements, which also are included in the Plan.[69] However, these initiatives have failed to revive Sears's failing financial condition, as evidenced by Sears's poor financial performance and the need to repeat these turnaround initiatives year after year.

Exhibit 9
Overview of Sears Initiatives Outlined in Management Plans and 2019 ESL Business Plan
2013 - 2019

	Management Plans						
Initiatives	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 ESL Business Plan**
Revenue Drivers							
More Offers From Loyalty Program - Shop Your Way ("SYW")	x	x	x	x	x	x	x
Promotional Effectiveness	x	x	x	x	x	x	
Store Clustering					x	x	
Better In-Stock Rates for Replenishment Products			x	x			x
Improved Pricing (Localized, Targeted, Dynamic, etc.)	x	x	x	x	x	x	x
Cost Initiatives							
LEAN - Portfolio of Cross Company Initiatives	x	x	x				
Headcount Reduction		x	x	x	x	x	x
SKU and Vendor Reduction / Elimination		x	x	x	x		x
Strategic Sourcing for Products		x	x	x	x	x	
Consolidate Vendors Across Sears and Kmart		x					x
Digital Marketing ROI Improvement	x	x	x	x	x	x	x
Traditional Marketing ROI Improvement	x	x	x	x	x	x	x
Reduce Square Feet in Apparel		x					
Single Product Master (allows system consolidation)							x
Go-Get/Unidentified	x	x	x	x	x	x	?

52. Moreover, Sears executives established financial targets related to these initiatives that were based on unreliable methods. Based on my review of interview transcripts of current and former Sears executives, I understand that Sears's management historically prepared top-down financial targets for the Company and its various business units. In parallel, Sears's management had business unit managers develop "bottom-up" plans (*i.e.*, business-unit level) based on input from relevant employees.[70] In my professional

---

68 *See, for example,* Sears Holdings Corp., 2014 Plan Review, Jan. 22, 2014 (DUFF00045570).

69 *See* Sears Holdings Corp., 2014 Plan Review, Jan. 22, 2014 (DUFF00045570); Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015 (RS_SHC_00015574); Sears Holdings Corp., 2016 Plan Update, Jan. 28, 2016 (Sears_ESL00012719); Sears Holdings Corp., 2017 Plan Update, Feb. 8, 2017 (Sears_ESL00015417); 2019 Project Transform Business Plan (RS_UCC_00000682).

70 *See* Interview of Edward Lampert, *In re: Sears Holdings Corp., et al.*, (Dec. 12, 2018) [hereinafter "Lampert Interview Transcript"], p. 255; *See also* Interview of Robert Riecker, *In re: Sears Holdings*

experience, both approaches, when properly conducted, can generate reasonable budgets and forecasts. However, I understand that Sears's management did not properly reconcile or integrate these two approaches. In particular, when the so-called "bottom-up" plans fell short relative to the leadership's targets for the same units, management would frequently have those units include unidentified initiatives in the plan to bridge the gaps between the business unit-driven targets and the firm-level targets.[71] The Company's annual plans would mark these gaps as "go-gets" or "unidentified initiatives."[72] Former Sears CFO Robert Schriesheim recalled that he and other board members raised on several occasions the idea of setting lower targets and cutting back on "go-gets," but those proposals were overwhelmed by Mr. Lampert's insistence on high targets.[73]

53. As shown in Exhibit 9, each of Sears's management plans from 2013 through 2018 included these unidentified "go-gets," either explicitly or by allocating target improvements to unspecified initiatives. For example, the 2018 management plan included a target of $1.2 billion in gross margin improvement. However, it identified specific initiatives that would improve the gross margin by only an estimated $639 million, meaning that the remaining $559 million targeted gross margin improvement depended on an unidentified "go-get." The 2018 management plan explicitly acknowledges that "[b]usiness Units are working to solve Unidentified / GAP of $559M."[74] Similarly, the management plan included a cost reduction target of $436 million, only a fraction of which tied to specific initiatives with the large remainder attributed to undefined "go-get."[75] Likewise, the 2017 management plan targeted a gross

Corp., et al., (Dec. 5, 2018) [hereinafter "Riecker Interview Transcript"], p. 46; Interview of Naren Sinha, *In re: Sears Holdings Corp., et al.*, (Dec. 4, 2018) [hereinafter "Sinha Interview Transcript"], pp. 23-26.

71 *See* Interview of Robert Schriesheim, *In re: Sears Holdings Corp., et al.*, (Dec. 19, 2018) [hereinafter "Schriesheim Interview Transcript"], pp. 40–44; Sinha Interview Transcript, p. 26.

72 Schriesheim Interview Transcript, pp. 64–65.

73 *See* Schriesheim Interview Transcript, pp. 48–50.

74 Sears Holdings Corp., 2018 Plan Review, Jan. 30, 2018, p. 7 (Sears_ESL00020007 at Sears_ESL00020007_007).

75 Sears Holdings Corp., 2018 Plan Review, Jan. 30, 2018, p. 8 (Sears_ESL00020007 at Sears_ESL00020007_008).

margin improvement of $893 million, with a "go-get" of $390 million, and a cost reduction of $682 million, with a "go-get" of $238 million.[76]

54. In some years, instead of explicitly referencing "go-gets," Sears's management plans allocated various portions of EBITDAP improvements to unspecified business units or to unknown initiatives within a specific business unit. For example, the 2015 management plan targeted a year-over-year EBITDAP improvement of $1.2 billion.[77] However, $324 million of improvements are simply allocated to "Other BUs" with no detail identifying which business units would generate these improvements, let alone how they would do so.[78] The 2015 management plan allocated another $242 million of improvements to specific business units, such as Kmart apparel, but without any initiatives identified to suggest how these improvements would materialize.[79] Finally, the same plan allocated another $102 million of improvements to the "Other" initiatives category within some business units, again failing to provide any information regarding the nature of the initiative.[80] Altogether, more than half of the targeted EBITDAP improvement set forth in Sears's 2015 management plan was not allocated to either a specific business unit or initiative.

55. In my opinion, it is sensible for retail industry executives and managers to develop a "bottom-up" business plan based on input from employees close to the business. It is also sensible for management to add stretch targets to incentivize business divisions to achieve better results than the conservative estimates that employees close to the business are likely to propose. However, Sears's management, under ESL's control and ownership, undermined the integrity and reliability of its target setting by adjusting the

---

76 Sears Holdings Corp., 2017 Plan Update, Feb. 8, 2017, p. 5 (Sears_ESL00015417 at Sears_ESL00015417_005).

77 Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015, p. 3 (RS_SHC_00015574 at RS_SHC_00015577).

78 Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015, p. 47 (RS_SHC_00015574 at RS_SHC_00015621).

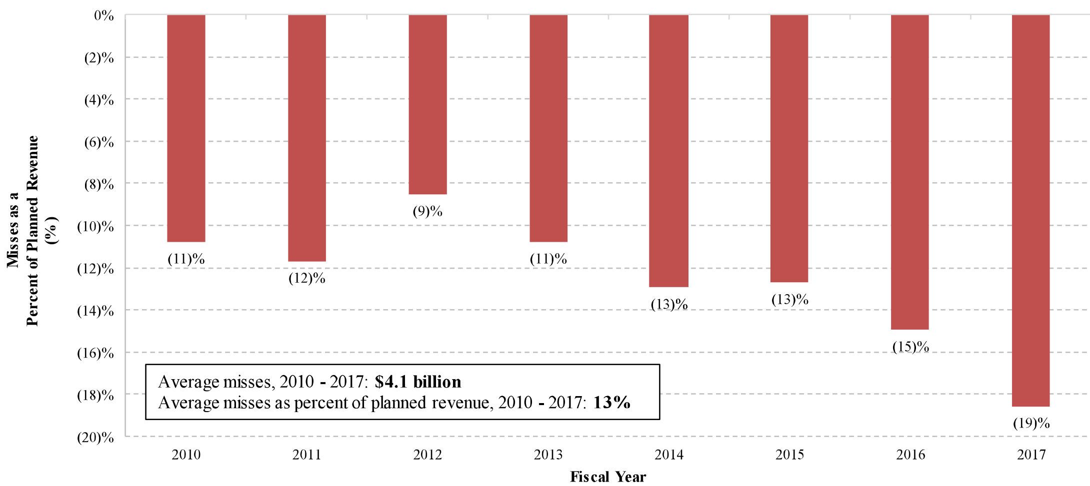
79 The 2015 management plan does not identify any initiatives for Kmart Apparel, Lawn & Garden and Outdoor Living business units. These units are shown as contributing $155 million, $52.7 million and $34.5 million, respectively, to the planned EBITDAP improvement. *See* Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015, pp. 36-45 (RS_SHC_00015574 at RS_SHC_00015610-19).

80 For the FLS Apparel, Appliances, Home, Electronics, Home Services, Tools, Sears Auto Centers, and Kmart Grocery & Household business units the specific initiatives identified in the 2015 management plan include initiatives category labeled as "Other." *See* Sears Holdings Corp., 2015 Plan Review, Jan. 21, 2015, pp. 36-45 (RS_SHC_00015574 at RS_SHC_00015610-19).

bottoms-up targets with large, unexplained, and persistent gaps to achieve more optimistic leadership-driven targets. Given its approach, I am not surprised that Sears consistently failed to meet its plans.

56. In fact, Sears failed to achieve its annual revenue, gross margin, and EBITDAP targets in each year from 2010 through 2017. Exhibit 10 compares Sears's actual and targeted revenue during this period. For instance, in 2016, Sears set a target of $26 billion in revenue, but its actual revenue for the year was $22.1 billion, a miss of 15 percent. Similarly, Sears set a revenue target of $20.5 billion for 2017, but it again missed the target as its actual revenue for the year was only $16.7 billion, a miss of 19 percent. Between 2010 and 2017, Sears underperformed its total revenue projection by an average of approximately $4.1 billion or 13 percent of the annual target.

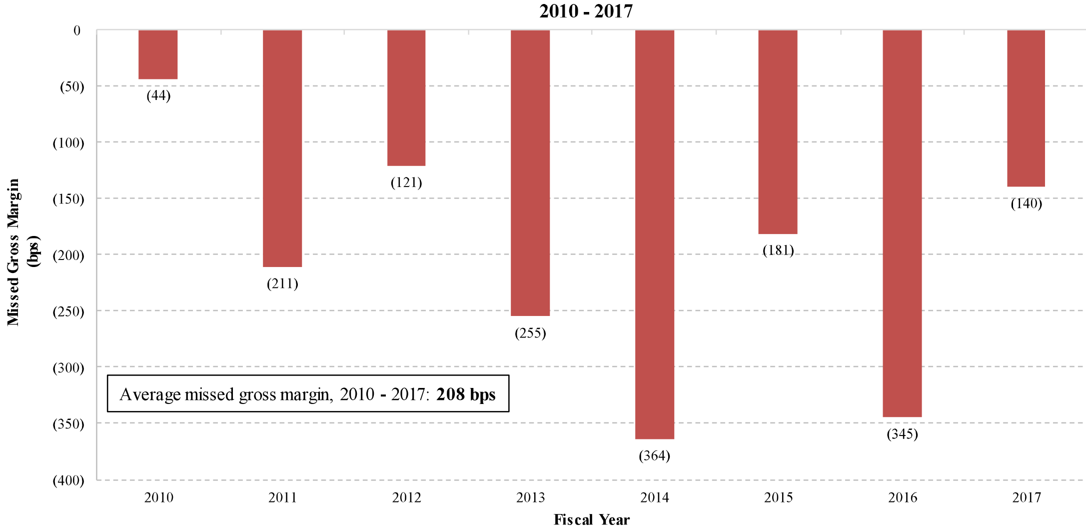
Exhibit 10
Comparison of Sears Actual and Planned Total Revenue
2010 - 2017



	2010	2011	2012	2013	2014	2015	2016	2017
Planned Revenue ($ millions)	43,183	41,816	38,840	36,282	33,380	28,766	26,000	20,492
Actual Revenue ($ millions)	38,524	36,923	35,528	32,370	29,061	25,110	22,113	16,686
Missed Revenue ($ millions)	4,660	4,893	3,312	3,912	4,319	3,656	3,887	3,806
Missed Revenue (%)	11%	12%	9%	11%	13%	13%	15%	19%

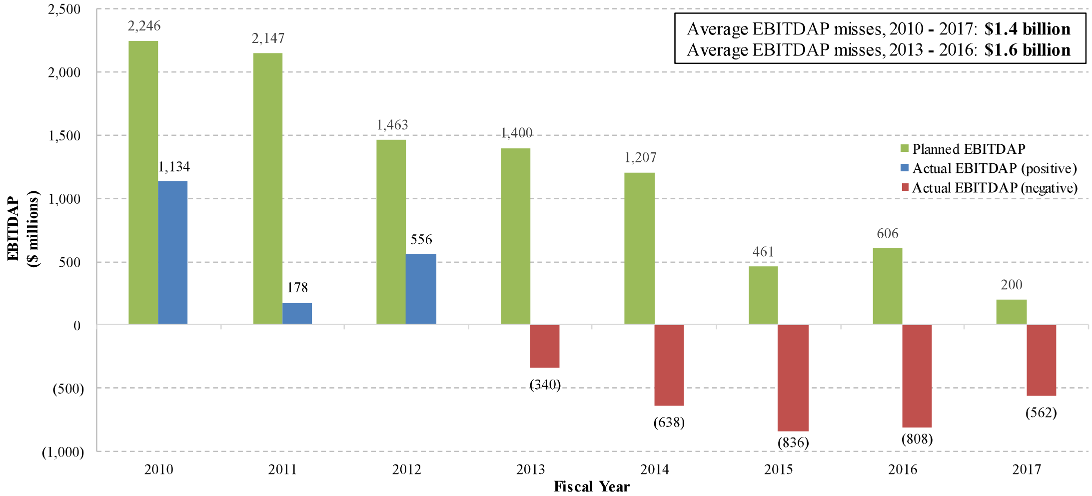
57. Exhibit 11 compares Sears's actual and targeted gross margin. For example, in 2014 Sears set a gross margin target of 36.2 percent, but its actual gross margin for the year was 32.6 percent, a miss of 364 basis points, which is a large miss for a retailer. Sears missed its gross margin target by a similar amount in 2016. Between 2010 and 2017, Sears missed its gross margin targets by an average of 208 basis points.

Exhibit 11
Comparison of Sears Actual and Planned Gross Margin
2010 - 2017



	2010	2011	2012	2013	2014	2015	2016	2017
Planned Gross Margin	37.2%	37.3%	36.7%	35.8%	36.2%	34.7%	36.1%	35.7%
Actual Gross Margin	36.8%	35.2%	35.5%	33.2%	32.6%	32.9%	32.6%	34.3%
Missed Gross Margin (bps)	44	211	121	255	364	181	345	140

58. Exhibit 12 compares Sears's actual and targeted EBITDAP. For instance, in 2014, Sears had an EBITDAP target of $1.21 billion, but its actual EBITDAP for the year was a loss of $638 million. Similarly, in 2016, Sears had an EBITDAP target of $606 million, but its actual EBITDAP for the year was a loss of $808 million. Sears was missing its EBITDAP targets on average by $1.4 billion each year. In particular, between 2013 and 2017, Sears had consistently lost money, but its EBITDAP targets were still persistently positive and higher than actual EBITDAP.



	2010	2011	2012	2013	2014	2015	2016	2017
Missed EBITDAP as a Percent of Planned EBITDAP	50%	92%	62%	124%	153%	281%	233%	381%

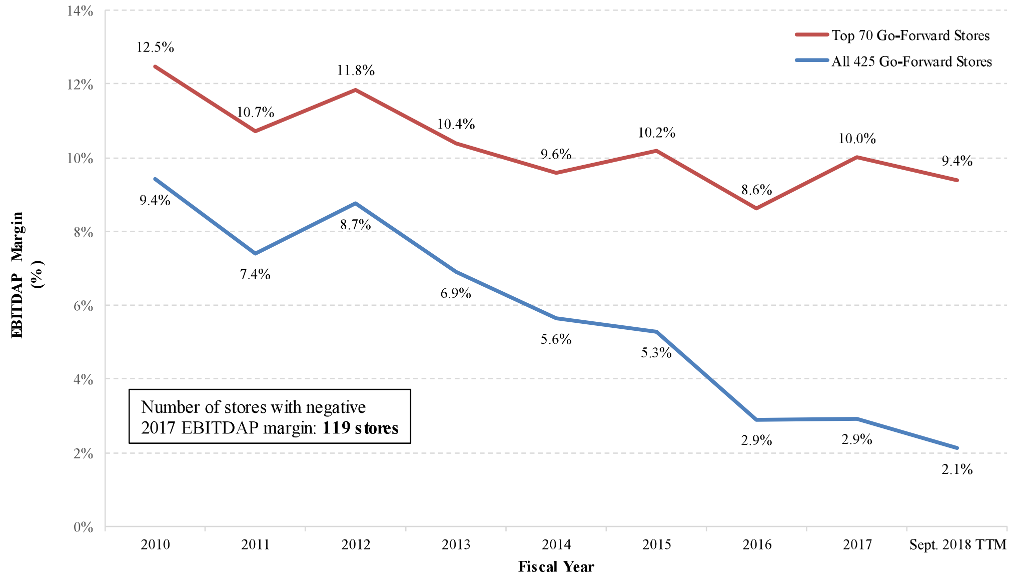
59. In addition to revenue-driving initiatives, Sears has attempted to improve its declining financial performance through cost reductions and store closure targets, as described earlier. As shown in Exhibit 9, Sears consistently included various cost reduction initiatives in its management plans between 2013 and 2018. Many of these same initiatives are also included in the 2019 ESL Business Plan.

60. Similarly, as discussed earlier, Sears's store count has declined more than 87 percent from its peak of over 4,000 stores in 2010 to 505 stores as of year-end 2018. These store closures, however, failed to stem, let alone reverse, the decline in the business. Exhibit 13 shows the average store-level EBITDAP margin for the 425 stores that the Plan contemplates retaining. The EBITDAP margin for these stores, which presumably are among the better-performing Sears stores given their proposed retention, has declined from 9.4 percent in 2010 to 2.1 percent as of September 2018. In fact, the EBITDAP margin for the stores for the trailing twelve months as of December 2018 was just 0.4 percent.[81] In 2017, 119 of the 425 stores, or almost 30 percent, had negative EBITDAP before consideration of corporate overhead and supply chain costs, which is further

81 ESL Investments, "Lender Presentation" (ESL-UCC-00004499).

evidence that Sears's financial problems are not isolated to a handful of stores, but are widespread.

Exhibit 13
Historical EBITDAP Margins for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2010 - 2018



61. The exhibit also shows that store-level EBITDAP margin has declined even for the top performing 70 of the 425 stores. In addition, the 2019 ESL Business Plan does not contemplate changes to store management, operations, or merchandising teams.

IV. ESL's Initiatives and Financial Projections for a Post-Bankruptcy Sears Are Overly Optimistic and Unreasonable

62. In January 2019, ESL presented the 2019 ESL Business Plan for Sears's post-bankruptcy operations.[82] The Plan contains initiatives related to Sears's retail stores, cost savings, margin improvements, headcount reductions, CEO search, and other financial projections.[83] In this section, I provide the basis for my conclusion that ESL's financial projections are speculative, overly optimistic, and unreasonable. ESL's projections and initiatives contained in the Plan are not, in my opinion, sufficient to reverse Sears's longstanding downward trend and reinforcing cycle of asset divestures and underinvestment in remaining businesses. I explain how ESL's initiatives for a post-bankruptcy Sears are not substantively different from those that Sears has already

---

82 *See* 2019 Project Transform Business Plan (RS_UCC_00000682).

83 *See* 2019 Project Transform Business Plan (RS_UCC_00000682).

employed year-over-year in failed attempts to revive the business. Given its historical record and the fact that the Plan fails to offer material and innovative initiatives that could reasonably turn around Sears, in my opinion, it is more reasonable to expect that a going-forward Sears would close stores, sell assets, lay off employees, and shrink its business.

A. Overview of the 2019 ESL Business Plan

63. From a financial forecasting perspective, the 2019 ESL Business Plan includes two key strategic components and two critical assumptions. Strategically, the Plan contemplates the restructuring and cost cutting of the corporate and overhead functions and a business focus on the 425 remaining retail stores as the Company's core revenue generation. The Plan assumes revenue growth at these 425 remaining stores, despite their poor performance in recent years, and further assumes that gross margins will immediately improve upon implementation of the proposed restructuring and cost reduction plans. In this section, I discuss these strategic plans and underlying assumptions in more detail.

64. The 2019 ESL Business Plan envisions substantial reductions of corporate SG&A expense from $1.2 billion to $600 million, with further cuts planned through 2019, resulting in an SG&A run rate of just $480 million as of January 2020.[84]

65. The 2019 ESL Business Plan assumes that, amidst dramatic cost reductions, same-store sales for the remaining 425 stores will decline a mere 1 percent in 2019, which is substantially better than the results for these stores in recent years. The Plan then forecasts same-store sales increasing by 2 percent in 2020, 3 percent in 2021, and 4 percent per year in 2022 and 2023.[85] As I discuss later in Section IV.D., these revenue expectations are inconsistent with the historical performance at these stores that I described earlier. The 2019 ESL Business Plan includes other overly optimistic revenue assumptions, although these revenue assumptions are less significant to Sears's overall projected results. For example, the Plan forecasts that revenues from sales through

---

84 *See* 2019 Project Transform Business Plan, pp. 5 and 46 (RS_UCC_00000682 at RS_UCC_00000686 and RS_UCC_00000728).

85 *See* 2019 Project Transform Liquidity Analysis, pp. 2-3 (ESL-UCC-00005178 at ESL-UCC-00005180-181). The same-store sales decline/growth assumptions are based on the 425 retail stores discussed above.

Amazon will increase from $80 million in 2018 to $300 million in 2021.[86] The Plan states that it "conservatively assumes ~50% less incremental Amazon revenue than Company's projections" while it also assumes that Sears will enter into a licensing agreement with a third party to sell $500 million of Kenmore appliances in 2020 and $1 billion in 2021, an assumption not present in management plans.[87] It further assumes Sears Home Services will experience a 30 percent growth in certain segments of its business by 2021, and Innovel will grow third-party revenues to $300 million by 2021.[88]

66. The 2019 ESL Business Plan also assumes significant improvement in Sears's margins. The Plan forecasts a 125 basis point gross margin improvement in 2019 and a 200 basis point improvement in both 2020 and 2021.[89] The Plan forecasts that the company-wide EBITDAP will turn positive in 2019, an improvement over losses of $550 to $800 million per year from 2015 through 2018.

B. The 2019 ESL Business Plan Projects an Immediate, Although Small, Positive EBITDAP, Something Sears Has Not Achieved Since 2012

67. The Plan assumes positive consolidated EBITDAP in 2019, with continued EBITDAP growth, reaching 5 percent of total sales by fiscal year 2022.[90] Exhibit 14 shows the dramatic turnaround for EBITDAP envisioned by the Plan. In reality, EBITDAP losses have exceeded $500 million per year in each of the four years prior to the 2019 ESL Business Plan. I am not aware of any retailer that faced cost reductions akin to those proposed in the Plan, and the previously described retail industry headwinds, having achieved such a positive improvement in EBITDAP in a single year. In the specific case of Sears, the lack of a strong CEO makes it even more implausible that the Company will manage to turn its EBITDAP positive in 2019, particularly given the long history of negative EBITDAP results.[91]

---

86 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

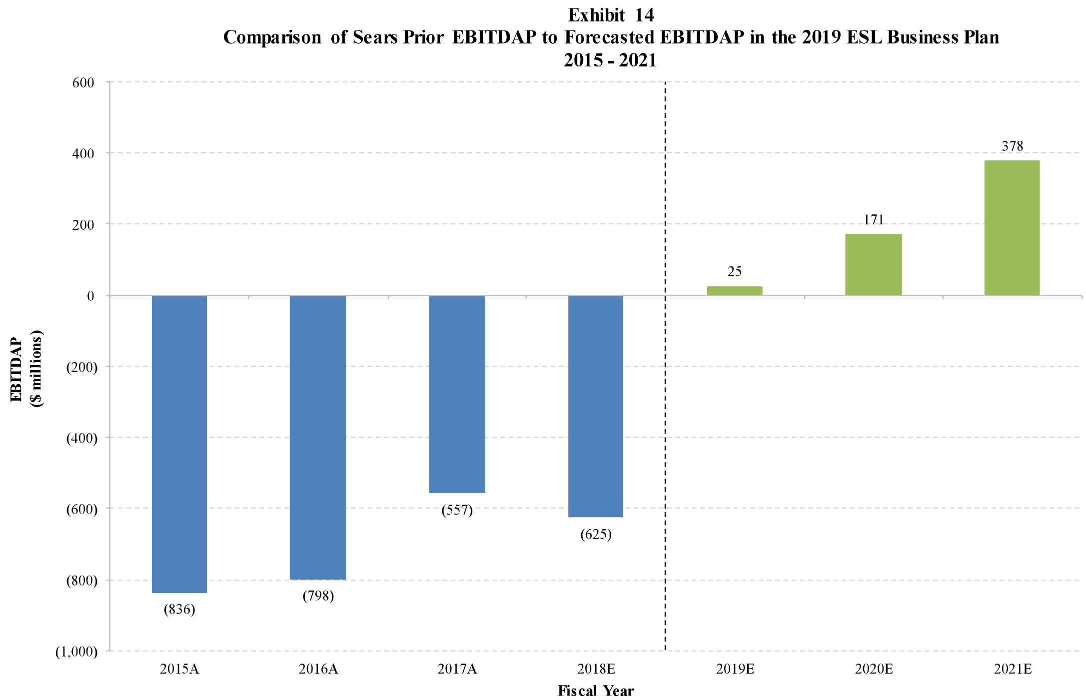
87 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180). The Plan assumes 4 percent licensing fee on all associated third-party sales.

88 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

89 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

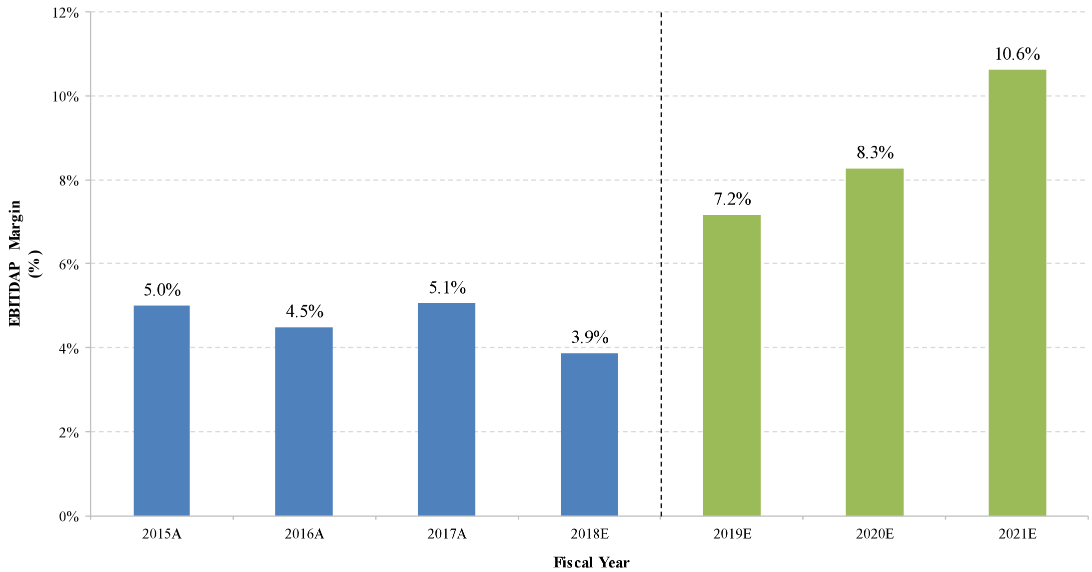
90 *See* 2019 Project Transform Liquidity Analysis, p. 4 (ESL-UCC-00005178 at ESL-UCC-00005182).

91 *See* Exhibit 2.



68. I describe below why several of the underlying assumptions included in the financial forecasts are unreliable, given their obvious diversion from historical trends despite the significant challenges facing Sears. That said, even if one assumes that these speculative and unreasonable assumptions are somehow achievable and Sears immediately generates the forecasted positive EBITDAP, these overly optimistic forecasted EBITDAP amounts and margins are quite small. In particular, as shown in Exhibit 15, before considering the corporate overhead and supply chain costs, the forecasted business unit EBITDAP margins for Sears as a whole is 7.2 percent in 2019, growing to a projected 10.6 percent in 2021. In my opinion, given the substantial corporate overhead and supply chain costs associated with running a retail business like Sears, these forecasted margins are low. Therefore, even minor deviations from the targeted revenue growth and gross margin improvement can have a significant impact on whether these EBITDAP figures are positive or negative.

Exhibit 15
Sears Business Unit EBITDAP Margin before Deducting Corporate SG&A and Other Adjustments
2015 - 2021



C. The Large SG&A Cuts Considered by the Plan Will Be Difficult to Achieve and Potentially Disruptive to the Business

69. The 2019 ESL Business Plan forecasts significant cost reductions, as similarly contemplated in prior years' management plans.[92] As I described earlier, Sears has been cutting costs for years, without achieving either top or bottom-line success. Nonetheless, the Plan assumes a reduction of corporate SG&A expense of 50 percent, from $1.2 billion to $600 million, through layoffs of over 1,000 positions in November 2018, 650 in January 2019, and additional layoffs of supply chain, sourcing, IT, and other personnel, as well as non-payroll reductions of over $250 million.[93] For example, the Plan forecasts:

- Home Office SG&A will be cut from $786 million in 2018 to $317 million in 2019, a 60 percent cut.[94]
- A reduction in IT from a 2018 "run rate" of $172 million in expenses to a 2019 run rate of $127 million.

---

92 *See* Exhibit 9 for an overview of cost initiatives outlined in Sears's management plans for prior years; *see also* 2019 Project Transform Business Plan, p. 46 (RS_UCC_00000682 at RS_UCC_00000728).

93 *See* 2019 Project Transform Business Plan, p. 46 (RS_UCC_00000682 at RS_UCC_00000728); *see also* Sears Holdings Corp., Lender Presentation, Jan. 24, 2019, pp. 27, 29.

94 *See* 2019 Project Transform Liquidity Analysis, p. 4 (ESL-UCC-00005178 at ESL-UCC-00005182).

- A reduction in IT expenses to $63 million in 2020 based on an assumed $30 million investment in 2019 in cloud computing.[95]

70. In my experience, reductions in SG&A expenses are not easy to achieve. For example, in 2018, Sears's management planned to decrease the number of conveyable distribution centers from nine to five.[96] Reducing the number of distribution centers, as ESL may be planning to do, would be very difficult to implement seamlessly because each remaining distribution center would then need to change its coverage area. Therefore, this change could prove disruptive to Sears, particularly in the near term. Specifically, distribution centers tend to be set up as a "door for store" arrangement or in a product arrangement, and sometimes as both.[97] For example, Sears intends to consolidate all apparel into one distribution center suitable for single item pick and pack orders. When a distribution center has to be rearranged to handle a different configuration of products and a different number of stores, all while serving a new geography, there are inevitably disruptions and temporary cost and distribution issues. For example, in 2006, when Stage Stores, a department store operator, reoriented its distribution centers into north and south and merely shifted stores between centers for future efficiencies, I recall that the temporary dislocations were larger than anticipated and large enough to merit discussion with the financial community.

71. While retail companies annually reevaluate their SG&A expenditures and seek to improve the allocation of those expenditures, dramatic reductions in SG&A expenditures or SG&A as a percentage of sales are highly likely to, at least in the near term, adversely impact sales and gross margins. Retailers generally only attempt SG&A expense reductions of the magnitude proposed in the 2019 ESL Business Plan when they are restructuring a business and are prepared for at least one or two years of negative revenue

---

95 *See* 2019 Project Transform Business Plan, p. 49 (RS_UCC_00000682 at RS_UCC_00000731).

96 *See* Sears Holdings Corp., 2018 Plan Review, Jan. 30, 2018, pp. 7, 19 (Sears_ESL00020007 at Sears_ESL00020007_007, _019); 2019 Project Transform Business Plan, p. 33 (RS_UCC_00000682 at RS_UCC_00000715); 2019 Project Transform Liquidity Analysis, p. 4 (ESL-UCC-00005178 at ESL-UCC-00005182); Sears Holdings Corp., Supply Chain Transformation, Nov. 14, 2018, p. 4. I note that it is unclear whether ESL plans to do the same, as the 2019 ESL Business Plan appears to keep all nine conveyable distribution centers open, but also recognizes the management-determined savings in "Supply Chain and Logistics" due to consolidation of distribution centers of $50 million per year. *See* 2019 Project Transform Business Plan, p. 47 (RS_UCC_00000682 at RS_UCC_00000729).

97 "Door for store" distribution centers have dedicated distribution capacity for every store that they serve. Product arrangement distribution centers are focused on distributing specific products.

growth given the expected fundamental changes in their business model. These restructuring efforts and SG&A expense reductions are frequently accompanied by one or two years of declining gross margins given the changing merchandise mix or relationship with the customer base. In **Appendix C**, I describe selected case studies of restructurings in the retail industry that highlight how revenue and margins can deteriorate in the aftermath of significant cost reductions. Lastly, even when a retailer successfully achieves targeted SG&A expense reductions, these reductions generally increase the risk that the resulting declines in sales and gross margins necessitate further reductions in SG&A.[98] That is, the reductions increase the risk of a cycle of reductions, declining profitability, and further reductions. Indeed, as explained in Section III, Sears has historically implemented several cost cutting initiatives and yet continued to face declining top and bottom-line results.

D. The Revenue Forecasts Ignore Recent Trends and Are Not Achievable

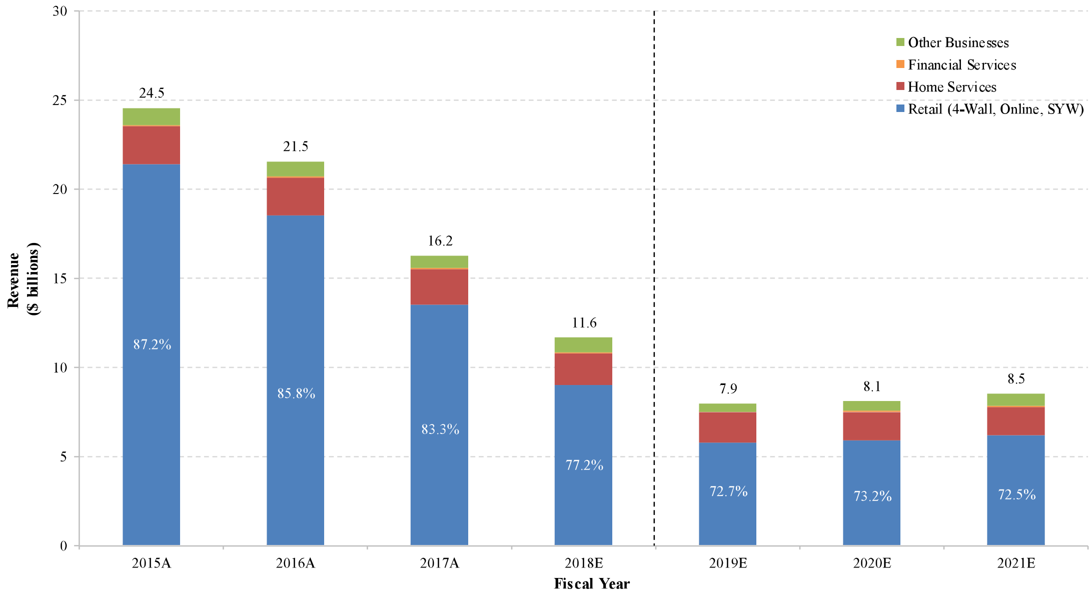
72. The retail business is the key revenue and profit driver for Sears's go-forward business, as contemplated in the Plan. The other Sears businesses, such as Home Services and Financial Services, depend on the Sears stores for their revenue. The retail business primarily includes the remaining 425 stores, but also includes SYW and online sales. The 425 remaining retail stores include 223 Sears and 202 Kmart stores, spread across all 50 U.S. states, including Puerto Rico and Guam.[99] This store count is significantly lower than the approximately 700 stores that existed at the commencement of Sears's bankruptcy, and the 505 stores forecast in Sears's 2018 Management Plan.[100] As shown in Exhibit 16, the Plan forecasts that the retail business will account for more than 70 percent of Sears's revenue going forward.

98 *See* 2019 Project Transform Liquidity Analysis, p. 5 (ESL-UCC-00005178 at ESL-UCC-00005183).

99 *See* 2019 Project Transform Business Plan, p. 14 (RS_UCC_00000682 at RS_UCC_00000696).

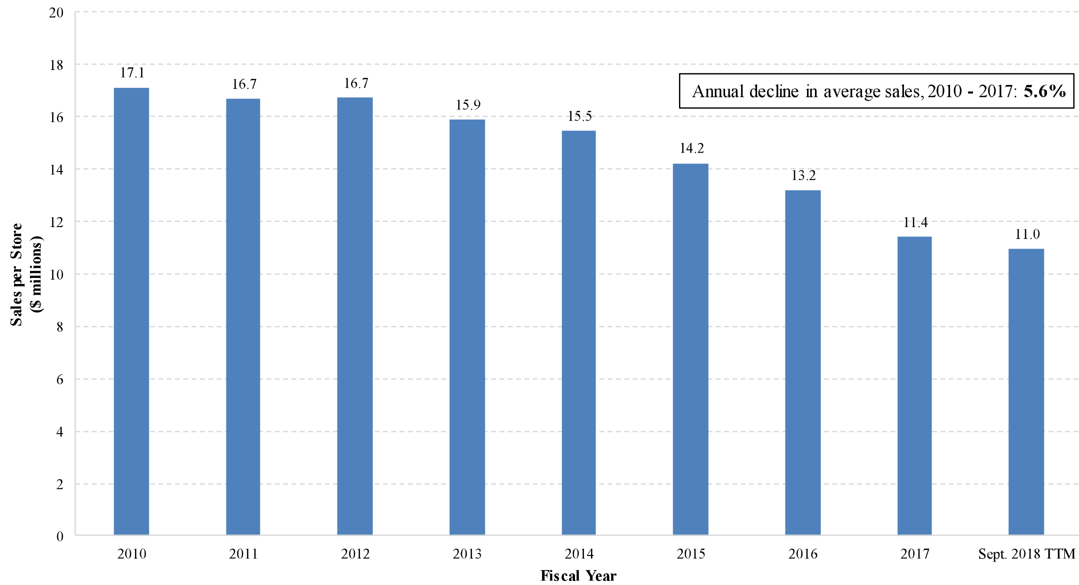
100 *See* Chris Isidore, "Sears, the Store that Changed America, Declares Bankruptcy," *CNN Business* (Oct. 15, 2018 12:58 PM), https://www.cnn.com/2018/10/15/business/sears-bankruptcy/index.html; *see also* Sears Holdings Corp., Preliminary Business Plan, December 2018, p. 4.

Exhibit 16
Sears Actual and Planned Revenues by Business Units
2015 - 2021



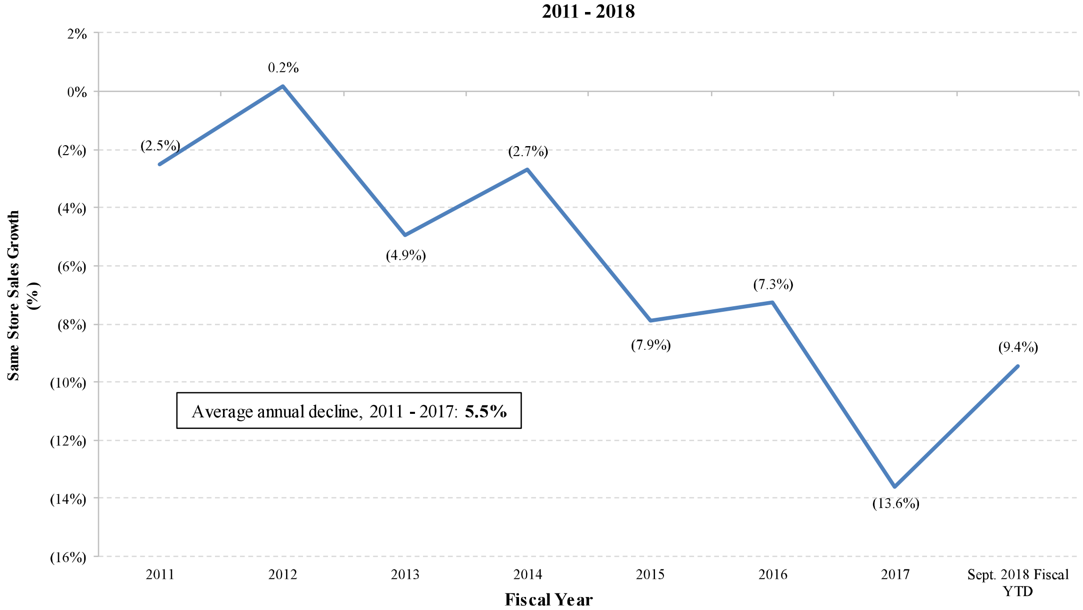
73. The Plan forecasts revenue at the remaining stores declining 1 percent in 2019 before rebounding and eventually growing at 4 percent per year in 2022 and 2023. Sears, however, has not experienced same-store revenue growth in years. As shown in Exhibit 17, average sales per store declined from $17.1 million in 2010 to just $11.4 million in 2017. Further, as described in the prior section, it is unreasonable to assume an increase in same-store revenues within one year of implementing the proposed cost reductions. Moreover, the Plan's revenue forecasts includes 425 stores, but other parts of the Plan assume additional stores are closed—this inconsistency is another reason to be concerned about the quality and reliability of the projections in the 2019 ESL Business Plan.

Exhibit 17
Historical Average Sales per Store for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2010 - 2018



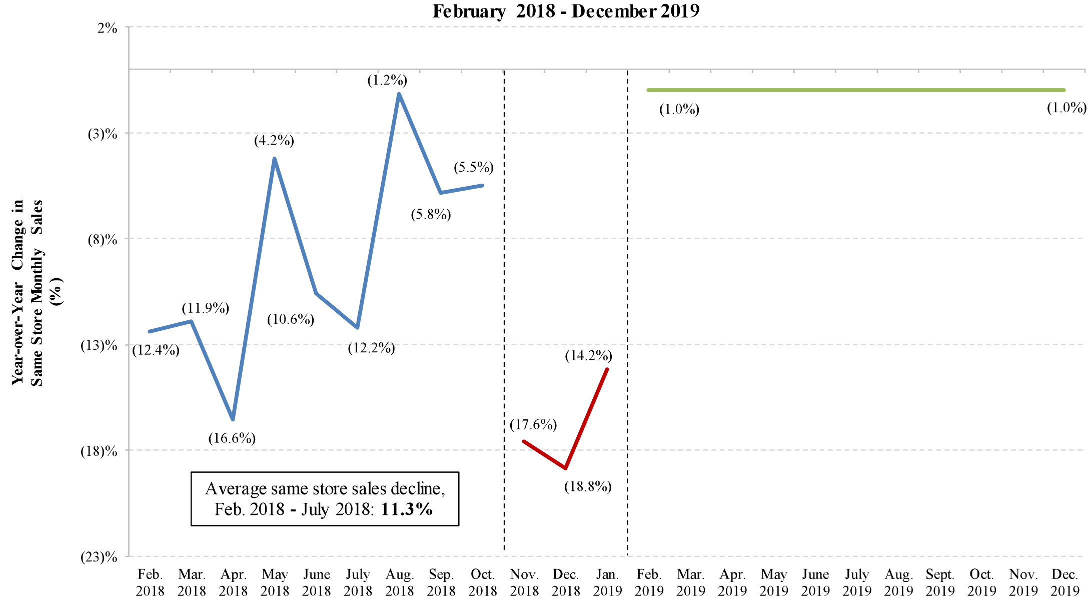
74. As discussed earlier and previously shown in Exhibit 13, these significant and long-term downward trends were apparent at the 425 stores that Sears plans to keep going forward. Indeed, same-store sales for these 425 stores has significantly declined in recent years, as shown in Exhibit 18. During these years, on average the same-store sales growth for these 425 stores declined 5.5 percent.

Exhibit 18
Same Store Sales Growth for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2011 - 2018



75. Despite this persistent trend of downward same-store sales, the Plan claims that its assumed same-store growth of negative 1 percent in 2019 is based on Sears's "performance prior to filing."[101] Based on my review of the materials, I presume that ESL, unreliably, relied on performance measures from a mere couple of months preceding Sears's bankruptcy filing and ignored the longer-term historical results. Exhibit 19 shows, for these 425 stores, the monthly year-over-year change in same-store sales for February 2018 through September 2018. As shown, from February through July 2018, the average year-over-year same-store sales decline was 11 percent. In August 2018, the figure improved to a decline of 1.2 percent, before regressing to a decline of 5.8 percent in September 2018. I presume, therefore, that the temporary improvement observed in August and September of 2018 serves as the basis for ESL's assumption in the 2019 ESL Business Plan "Base Case [that] assumes Brick & Mortar SSS growth of -1% in 2019 based on its performance prior to filing."[102]

Exhibit 19
Year-over-Year Change in Same Store Monthly Sales for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
February 2018 - December 2019



76. In my opinion and based on my experience, there are fundamental flaws in such an approach that further render the assumption unreliable. First, year-over-year changes in same-store monthly sales is demonstrably volatile, as shown in Exhibit 19. Therefore,

---

101 2019 Project Transform Business Plan, p. 4 (RS_UCC_00000682 at RS_UCC_00000686).

102 *See* 2019 Project Transform Business Plan, p. 4 (RS_UCC_00000682 at RS_UCC_00000686).

the observed measure in a single month cannot reliably establish a basis for assuming an effective abatement in a longstanding and refractory downward trend. Second, after Sears filed for bankruptcy, same store performance worsened significantly. As the exhibit shows, in November 2018 and later, average same-store sales declines year-over-year were as low as 19 percent.[103] Yet, the 2019 Business Plan assumes that same-store performance will rebound to a decline of just one percent as soon as February 2019. Third, the pattern shown in Exhibit 19 suggests that year-over-year changes in same-store monthly sales improve over the course of the year. Therefore, even if one were to use these data to inform an assumption about expected same-store sale performance, one would need to account for the possibility that same-store sales early in the year would be worse than those later in the year.

77. Fourth, I note that the improvement in this measure of same-store sales occurred during a month in which Sears's gross margins were lower than in the months prior and lower relative to the same month the year before. The gross margin in the first eight months of fiscal year 2018 was 100 basis points lower than during the eight months a year prior, and 380 basis points lower in September 2018 than in September 2017. This suggests that Sears offered lower prices to increase sales, resulting in lower gross margins. In the retail industry, this is a trade-off that can happen. For example, a retailer may decide to lower prices in order to move inventory in advance of a change of seasons. However, the 2019 ESL Business Plan does not allow for any trade-off. It assumes both same-store sales growth *and* increasing margins.

78. Furthermore, even this cherry-picked one-month's performance measure cannot support the Plan's additional assumption that, after 2019, retail revenues will grow 2 percent in 2020, 3 percent in 2021, and 4 percent thereafter. These growth assumptions are inconsistent with historical results for these stores and further unrealistic given the industry trends and headwinds facing the business.

79. In addition, approximately half of the Sears business comes from the Kmart legacy stores, which will have to achieve the planned revenue increases against competitors

---

103 The data shown for November through January reflects 545 stores and includes 40 Going Out of Business ("GOB") stores.

including Walmart and Target. In 2018, Walmart and Target increased store traffic and, in some quarters, achieved 40 percent growth in online sales.[104]

80. Lastly, the 2019 ESL Business Plan entertains the possibility of three store closures each month over the course of 2019.[105] This assumption appears reasonable given the continued erosion in store performance and the fact that Sears reduced its number of stores from 4,000 to the currently proposed 425 stores.[106] Based on my experience, even with a dramatically reduced footprint, the remaining Sears stores could not stabilize the business and achieve same-store sales growth. Specifically, the Plan shows that Sears's retail business, including brick and mortar stores, online, and SYW, generated EBITDAP of $242 million, or 2.7 percent of revenues, in 2018.[107] Importantly, these results are based on nearly twice as many brick and mortar stores as are planned for Sears's future operations, and demonstrate that Sears will not be able to generate sufficient EBITDAP to support any centralized corporate cost structure and maintain the business. As can be seen in Exhibit 13, the EBITDAP margin from the 425 go-forward stores decreased over time to between 2 and 3 percent. Even assuming that Sears would close most of its stores and retain a core group of reasonably profitable stores, these stores would be geographically dispersed and Sears would not be able to operate profitably with its current infrastructure.

81. The Plan also includes financial forecasts for Sears Home Services, and its "Other Businesses," which I understand include the Kenmore, Craftsman, DieHard, and Monark businesses.[108] Exhibit 20 shows the actual revenue, gross margin, and EBITDAP for these other units from 2015 through 2017 and expected performance for these units according to the Plan.

---

104 *See* Thomson Reuters, "Edited Transcript: TGT – Q2 2018 Target Corp Earnings Call" (Aug. 22, 2018 12:00 PM), p. 8; Thomson Reuters, "Edited Transcript: Q3 2018 Target Corp Earnings Call" (Nov. 20, 2018 1:00 PM), p. 3; *see also* Walmart, "Walmart U.S. Q3 Comp Sales(1) Grew 3.4% and Walmart U.S. eCommerce Sales Grew 43%, Q3 GAAP EPS of $0.58" (Nov. 15, 2018); Walmart, "Walmart U.S. Q2 Comps(1) Grew 4.5% and Walmart U.S. eCommerce Sales Grew 40%, Q2 GAAP Net Loss Per Share of $0.29; Adjusted EPS(2) of $1.29" (Aug. 16, 2018).

105 *See* 2019 Project Transform Liquidity Analysis, p. 6 (ESL-UCC-00005178 at ESL-UCC-00005184).

106 *See* Exhibit 1. *See also* 2019 Project Transform Business Plan, p. 4 (RS_UCC_00000682 at RS_UCC_00000685).

107 *See* 2019 Project Transform Liquidity Analysis, p. 5 (ESL-UCC-00005178 at ESL-UCC-00005183).

108 *See* 2019 Project Transform Liquidity Analysis, p. 6 (ESL-UCC-00005178 at ESL-UCC-00005184).

Exhibit 20
Performance by Business Unit
2015 - 2021

($ in millions)

	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Retail (4-Wall + Online + SYW)							
Revenue	$21,381	$18,492	$13,531	$8,991	$5,768	$5,909	$6,166
Gross Margin	$6,541	$5,476	$4,119	$2,572	$1,697	$1,829	$2,046
Gross Margin as a % of Revenue	*30.6%*	*29.6%*	*30.4%*	*28.6%*	*29.4%*	*31.0%*	*33.2%*
EBITDAP	$959	$628	$531	$242	$338	$444	$634
EBITDAP as a % of Revenue	*4.5%*	*3.4%*	*3.9%*	*2.7%*	*5.9%*	*7.5%*	*10.3%*
Home Services							
Revenue	$2,139	$2,159	$1,953	$1,762	$1,681	$1,573	$1,593
Gross Margin	$1,582	$1,592	$1,433	$1,276	$1,237	$1,107	$1,099
Gross Margin as a % of Revenue	*74.0%*	*73.7%*	*73.4%*	*72.4%*	*73.6%*	*70.4%*	*69.0%*
EBITDAP	$195	$266	$222	$123	$183	$148	$148
EBITDAP as a % of Revenue	*9.1%*	*12.3%*	*11.4%*	*7.0%*	*10.9%*	*9.4%*	*9.3%*
Financial Services							
Revenue	$66	$68	$74	$103	$49	$42	$44
Gross Margin	$66	$68	$74	$103	$49	$42	$44
Gross Margin as a % of Revenue	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
EBITDAP	$55	$59	$68	$99	$44	$37	$39
EBITDAP as a % of Revenue	*83.3%*	*86.8%*	*91.9%*	*96.1%*	*89.8%*	*88.1%*	*88.6%*
Other Businesses							
Revenue	$947	$824	$690	$792	$441	$551	$699
Gross Margin	$73	$94	$97	$269	$74	$113	$158
Gross Margin as a % of Revenue	*7.7%*	*11.4%*	*14.1%*	*34.0%*	*16.8%*	*20.5%*	*22.6%*
EBITDAP	$18	$14	$1	($13)	$4	$39	$82
EBITDAP as a % of Revenue	*1.9%*	*1.7%*	*0.1%*	*(1.6%)*	*0.9%*	*7.1%*	*11.7%*

82. For example, the Plan expects slight declines in revenues of the Sears Home Services business, although I am unable to offer a detailed analysis of the Plan's assumptions regarding the Home Services forecasts, as the Plan simply states that it:

> Assumes 2018B to 2021E will be driven by a 30% increase in B2B volume, D2C growth, and improvements in the PartsDirect website and IHR mobile technology over the next two years, offset by the cumulative effect of 3rd party underwriting transaction.[109]

83. As shown in Exhibit 20, Sears's Financial Services business is not a meaningful portion of projected total revenue, although, because its gross margins are close to 100 percent, it does impact the company's overall EBITDAP projections. The Plan does not provide a description of the assumptions for this business. However, I note that it is forecasted to remain relatively flat between 2019 and 2021.

---

109 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

84. Finally, according to the Plan, "Other Businesses" are expected to generate revenue of $441 million in 2019 and grow by almost 60 percent to $699 million in 2021. It is difficult to decipher the assumptions that account for this dramatic growth. The Plan assumes, as noted in Section IV.A, that revenues from Amazon sales of Kenmore appliances will increase from $80 million in 2018 to $300 million in 2021, a 55 percent annual growth rate.[110] However, the Plan neglects to mention that the relationship of Kenmore with Amazon has been just "break even or barely negative or barely positive," as the CFO of Sears, Mr. Robert Riecker, testified.[111] It also assumes that an unnamed new third-party account will come into existence in 2020 and generate Kenmore appliance sales of $1 billion in 2021, for which Sears will earn a 4 percent licensing fee.[112] However, the Plan does not provide any details or discussion of specific steps taken to secure the third-party account, which casts doubt on the reasonableness of this assumption.[113] Interestingly, Mr. Riecker testified that he is not aware of any specific third party that Sears has engaged with respect to this assumption.[114] The reasonableness of this assumption is further challenged by the recent decline in Kenmore sales and popularity. As I mentioned earlier, the Kenmore brand has declined from the top position in appliances to the current 5th place with just 8.8 percent market share.[115]

85. Therefore, overall, the revenue increases forecasted in the 2019 ESL Business Plan are, in my opinion, overly optimistic given the past performance of Sears and the fact that over 70 percent of its business going forward will be comprised of brick and mortar stores.[116] The speculative nature of the forecasted revenue increases for 2019 is highlighted by the fact that even successful department stores with stable businesses like Kohl's and Macy's barely recognized sales gains in 2018, despite strong consumer spending. Current market

---

110 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

111 *See* Deposition of Robert Riecker, *In re: Sears Holdings Corp., et al.*, Rough Transcript (Jan. 25, 2019) [hereinafter "Riecker Dep."], p. 122.

112 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180). The Plan assumes 4 percent licensing fee on all associated third-party sales.

113 *See* 2019 Project Transform Liquidity Analysis, p. 4 (ESL-UCC-00005178 at ESL-UCC-00005182).

114 *See* Riecker Dep., p. 150.

115 *See* 2019 Project Transform Business Plan, p. 23 (RS_UCC_00000682 at RS_UCC_00000705).

116 *See* Exhibit 16.

sentiment is that consumer spending in 2019 will fall short of 2018, creating yet more risk to what are already highly speculative revenue increase forecasts.[117]

86. Based on my experience in the industry, prior knowledge of Sears, and review of materials in this case, a more reasonable consolidated revenue forecast for 2019 for Sears would be a decline of 5.5 percent, matching the average same-store sales growth for the 425 go-forward stores over the period of 2011 to 2017.

E. The Forecasted Improvement in Gross Margin Is Not Reliable and Fundamentally Flawed

87. In my opinion, the Plan also includes unreasonable assumptions about projected gross margins. Specifically, the Plan assumes 125 basis points gross margin improvement for Sears's brick and mortar stores in 2019, 200 basis points gross margin improvement in 2020 and 2021, and a 225 basis points improvement in 2022 and 2023.[118] The Plan assumes the same gross margin improvements for the Sears Auto Center outlets.[119]

88. As shown in Exhibit 20, gross margin improvements are not limited to the retail business. The "Other Businesses" segment, which is comprised largely of the Kenmore unit, is projected to have gross margins grow from 17 percent in 2019 to 23 percent in 2021. This large increase in gross margins contributes to the result, as shown in the exhibit, of EBITDAP growing from $4 million in 2019 to $82 million in 2021.

89. Based on my experience in the retail industry, these are unrealistic gross margin improvements, especially given the long-standing decline in Sears's gross margins at its stores generally and also specifically at the 425 "go-forward" stores. The Plan fails to provide specific details on how, post-bankruptcy, Sears will achieve this margin improvement. As discussed in Section III, Sears has a history of preparing overly optimistic business plans that include large, unexplained, and persistent plugs and "go-gets." To the extent that the Plan reflects a similar approach, it is even more unreliable as it would incorporate undefined initiatives designed to overstate potential growth. I also note that, in my professional experience, unrealistic plans are generally

117 *See* Lauren Thomas, "Doom and Gloom: Department Stores' Disappointing Holiday Sales Results Spell Trouble for 2019," *CNBC* (Jan. 17, 2019 7:06 PM), https://www.cnbc.com/2019/01/17/department-stores-disappointing-holiday-sales-results-spell-trouble.html/.

118 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

119 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

counterproductive, as they demotivate employees, especially managers with compensations tied to the targets.

90. Reversing the historical trends, and increasing gross margins, while striving for topline growth and implementing dramatic expense cuts will all be extremely difficult to achieve, especially at the present moment. In the retail industry, there is a natural counter balance in pushing for growth in sales and pushing for increases in gross margins. A retailer can lower prices and drive sales, but the retailer would give up its gross margins in the process. Conversely, a retailer can be much more conservative on inventory, give up sales by reducing markdowns, and enhance gross margins. Changing the trajectory of both sales and the gross margins in a short window of time, like the one year set forth in the 2019 ESL Business Plan, is rare and unusual and requires a significant alteration in the way a company runs its business. I see no such significant alterations in the Plan prepared by ESL.

91. In conclusion, based on my experience in the industry, prior knowledge of Sears, and review of materials in this case, a more reasonable consolidated gross margin forecast for 2019 for Sears would be no improvement to gross margins, rather than a 125 basis point improvement assumed by ESL.

F. The 2019 ESL Business Plan Is Not Transformative and Does Not Justify the Reversal in Financial Trends

92. Achieving the ambitious goals of the 2019 ESL Business Plan requires transformative changes and innovative leadership, which the Plan lacks. Instead, it fortifies the same ownership and management structure that Sears has had over the past 15 years.[120]

i. The Plan Highlights the Need for New Leadership, but Does Not Identify Who It Will Be

93. The Plan discusses the ongoing search for a new CEO "with a proven track record in effectuating large scale dynamic transformation."[121] Although the Plan identifies the need for a new CEO, the role remains unfilled, which further calls into question Sears's ability to meet its financial goals.[122] Based on my experience in the retail industry, finding a

[120] *See* Susquehanna Financial Group, Lampert Break-Up Letter, *supra* note 58.

[121] *See* 2019 Project Transform Business Plan, p. 5 (RS_UCC_00000682 at RS_UCC_00000687).

[122] ESL has not yet retained a search firm or identified suitable candidates. *See* Kamlani Dep., pp. 127-128.

qualified executive to be CEO at a struggling brick and mortar retailer in the current retail environment would be a challenge, and finding one who could turn around Sears consistent with the Plan would be even harder. Indeed, I understand that Mr. Kunal Kamlani, President of ESL, spoke about Sears having encountered challenges in attracting and retaining talent even before it filed for bankruptcy, which does not bode well for its success in this regard in a post-bankruptcy scenario. According to Mr. Kamlani, "Sears' future has been uncertain for a period of time and it's been a challenge to attract top quality talent consistently to ultimately execute on [the SYW] strategy." [123]

94. Further, given that post-bankruptcy Sears would remain controlled and owned by ESL, a new CEO, even one afforded independence, would face extraordinary challenges in executing any transformative initiatives in the short time period the Plan provides. In other words, a new CEO would inherit the losing proposition of overly optimistic projections and timelines, combined with legacy ownership and control entities. In my opinion and based on my experience, it will be extremely difficult to find someone who is comfortable leading such a massive transformation under the same ownership structure that managed Sears from over 4,000 retail stores and $1.1 billion dollars of EBITDAP to 425 stores and more than $500 billion in negative EBITDAP.[124]

95. Moreover, the Plan seems to suggest that Sears currently has at least three other important job openings for presidents to run business units.[125] The Plan identifies the qualifications for these "talent upgrades" at Kenmore ("proven track record of forging strong partnerships in an industry with few players"), Sears Home Services ("proven leader in transformation . . . into a 21st century customer solutions technology driven business"), and Innovel ("in depth knowledge of 3 PL markets (first, middle, and last mile)").[126] My expectation, based on my experience and given Sears's current state, is

---

123 Interview of Kunal Kamlani, *In re: Sears Holdings Corp., et al.* (Dec. 6, 2018), p. 66.

124 *See* Exhibits 1 and 2; *see also,* 2019 Project Transform Liquidity Analysis, p. 5 (ESL-UCC-00005178 at ESL-UCC-00005183).

125 I note that, based on the description in the Plan, it is possible the job requirement is describing the CEO. If true, the diversity of job skills required across these different units is yet another reason why finding the right CEO will be difficult.

126 *See* 2019 Project Transform Business Plan, pp. 21, 27, and 31 (RS_UCC_00000682 at RS_UCC_00000703, RS_UCC_00000709, RS_UCC_00000713).

that a post-bankruptcy Sears likely faces significant challenges filling these job openings as well.

ii. The Plan Offers Old Initiatives That Are Not Working

96. The Plan's initiatives for Kenmore, Sears Home Services, and other Sears businesses are vague and do not seem to meaningfully differ from initiatives included in Sears's prior years' management plans. For example, many of the Plan's initiatives involve investing in information technology to enhance the businesses. In particular, the Plan mentions scraping competitor pricing data, investing in digital marketing and marketing analytics, and optimizing inventory management.[127] While these may be reasonable initiatives, as described earlier, Sears has included similar initiatives before without achieving its targets.

97. The SYW loyalty program is a useful example of a longstanding initiative at Sears that failed to achieve its intended objectives and yet is included in the Plan. As early as July 2015, Standard & Poor's reported, "[w]e do not assume a significant improvement from the opportunity to substitute traditional promotion dollars with Shop Your Way points."[128] There has been little interest in SYW from industry analysts after 2015.

98. Analysts' lack of interest in the program is consistent with trends in SYW membership. Exhibit 21 shows SYW active membership over the past several years.[129] As shown, after membership numbers peaked in 2013, this figure had declined by 33 percent as of 2017. I also understand that SYW member spending has declined since 2013. Mr. Kamlani stated that "[t]o date, [SYW] has not been successfully executed" because "[i]t's been a challenge to break through with any level of scale for the program to be effective."[130]

---

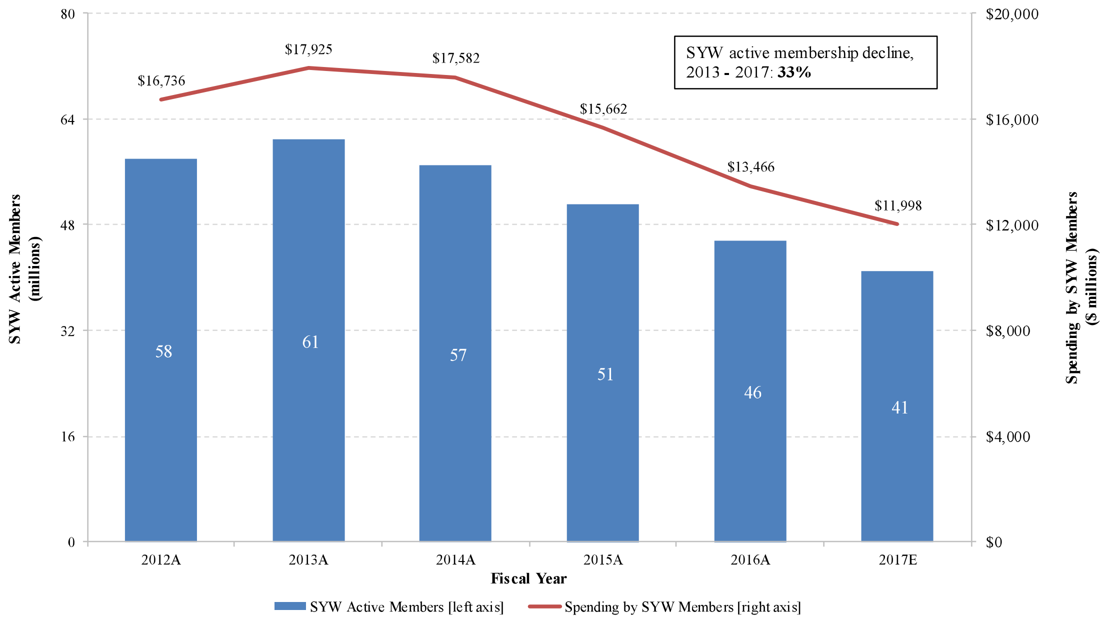
127 *See* 2019 Project Transform Business Plan, p. 46 (RS_UCC_00000682 at RS_UCC_00000728).

128 Standard & Poor's Ratings Services, "Sears Holdings Corp. 'CCC+' Rating Affirmed; Second-Lien And Senior Note Ratings Raised On Recovery Prospects," July 1, 2015, p. 3.

129 *See* Interview of Kunal Kamlani, *In re: Sears Holdings Corp., et al.* (Dec. 6, 2018), p. 63.

130 *See id.*

Exhibit 21
Shop Your Way Active Membership
2012 - 2017



99. Despite the lack of success from the SYW program, the 2019 ESL Business Plan nonetheless touts SYW as "one of the most sophisticated data, analytics, marketing and rewards engine platforms in the United States"[131] that can further drive customer behavior through targeted offers and partnering with credit card vendors.[132] The Plan also claims that SYW will help drive traffic to Sears.com and Kmart.com.[133] In my opinion, these claims are unrealistic given that Sears initiated SYW approximately ten years ago and the program has still not achieved its promise. The Plan asserts ESL's intention to use "machine learning" and "digital platforms" to increase growth in the loyalty program, but it is highly speculative to assume that Sears will improve its loyalty program, particularly given Mr. Kamlani's statements regarding the SYW's lack of scale.[134] Again, while these may be fine initiatives in other contexts, in my opinion, they do not reconcile with Mr. Kamlani's statements regarding the lack of scale in the SYW program.

---

131 *See* 2019 Project Transform Business Plan, p. 9 (RS_UCC_00000682 at RS_UCC_00000691).

132 *See* 2019 Project Transform Business Plan, pp. 12 and 35 (RS_UCC_00000682 at RS_UCC_00000694, RS_UCC_00000717).

133 *See* 2019 Project Transform Business Plan, p. 40 (RS_UCC_00000682 at RS_UCC_00000722).

134 *See* 2019 Project Transform Business Plan, p. 9 (RS_UCC_00000682 at RS_UCC_00000691).

100. In a recent deposition, Mr. Kamlani, testified that, in recent years, potential SYW program partners expressed reluctance to join because of a fear of Sears's imminent bankruptcy, which limited SYW's success. He testified that he believes potential partners will have more confidence in a post-bankruptcy Sears because the Company will have less debt on the balance sheet.[135] While it may very well be the case that potential partners were dissuaded by bankruptcy concerns, there is a high degree of speculation in Mr. Kamlani's statements regarding the reasons for SYW's muted success in recent years as well as his proposition regarding the post-bankruptcy environment.

101. First, SYW has been a seemingly important part of Sears's strategy for almost a decade and preceded Sears's downward spiral. This long history raises the question of whether the program had difficulty attracting and retaining partners historically for reasons other than those offered by Mr. Kamlani. In its 2010 10-K filing, Sears stated:

> Our ***existing store base*** is a significant asset, as our 4,000 stores provide us with a physical presence in almost all major communities in the United States and Canada. We have been working to improve our existing stores in a number of ways. First and foremost, we are using technology to transform our store experiences and we continue to innovate as an integrated retailer, offering our customers a seamless experience across channels under the Shop Your Way banner.[136]

102. Second, the value of the program to partners is substantially lower today than in the past. The declining membership numbers and the declining number of retail stores and customers visiting those stores devalues the overall value of the program.

103. Third, in my opinion, the fact that Sears entered bankruptcy is likely insufficient to qualm potential partners' concerns regarding Sears's financial viability going forward. Although Mr. Kamlani claims that Sears's debt reduction will be more attractive to potential partners, in my opinion, many potential partners will likely want to see Sears actually achieve its operational and financial goals before entering into a business

135 Kamlani Dep., pp. 144-145.

136 Sears Holdings Corp., 2010 Form 10-K, filed Mar. 11, 2011 (emphasis in original), pp. 19-20. The programs are described as, "We launched our Shop Your Way Rewards program late in 2009 and continued to grow membership and capabilities in 2010. The Shop Your Way Rewards program is intended to transition Sears Holdings from serving customers to building relationships with members. We believe that Shop Your Way Rewards will allow us to learn more about our individual customers and therefore position us to better meet their needs. The Shop Your Way Rewards program will also enhance our ability to communicate with customers digitally. Such digital communication tools present a new opportunity to personalize our messages and make them more individually relevant." *Id.*, p. 20.

relationship with the Company. That is, Mr. Kamlani's assertion speculatively assumes the partners will be more likely to join the program without Sears demonstrating actual operational and financial improvement.

104. In summary, the SYW program failed to reverse Sears's downward trend during the nearly one decade of the loyalty program's existence. The 2019 ESL Business Plan fails to identify specific justification as to why it assumes the SYW program will, post-bankruptcy, suddenly achieve the very objectives that have evaded Sears for nearly ten years.

iii. The Proposed Areas of New Growth Are Minor and Speculative

105. The 2019 ESL Business Plan offers only minor and speculative areas of new growth. For example, ESL plans to grow the Kenmore business primarily through externalizing the brand (a speculative plan that I discuss in Section IV.D) and investing in "connectivity" of Kenmore appliances, whereby a fridge temperature can be controlled by a phone application.[137] It intends to expand the Sears Home Services beyond appliance repairs.[138] It plans to expand its Innovel logistics business to deliver goods for third parties and then sell the business.[139] It plans for the Sears Auto Center to service corporate car fleets and Uber and Lyft cars.[140]

106. ESL also intends to expand the number of smaller stores, approximately one-tenth the size of an average store and focusing on appliances, from just four such stores in 2018.[141] But again, those plans are minor and speculative, as Sears has been experimenting for years with different store formats focusing on appliances.

107. Other assumptions made by ESL in the 2019 ESL Business Plan are also questionable. For example, ESL assumes e-commerce growth of 5 percent,[142] even though Sears's management, under ESL's control and ownership, has historically underinvested in the Sears business and Sears's online sales have declined in recent years despite the

---

137 *See* 2019 Project Transform Business Plan, p. 21 (RS_UCC_00000682 at RS_UCC_00000703).

138 *See* 2019 Project Transform Business Plan, p. 27 (RS_UCC_00000682 at RS_UCC_00000709).

139 *See* 2019 Project Transform Business Plan, p. 31 (RS_UCC_00000682 at RS_UCC_00000713).

140 *See* 2019 Project Transform Business Plan, pp. 37-38 (RS_UCC_00000682 at RS_UCC_00000719-20).

141 *See* 2019 Project Transform Business Plan, p. 18 (RS_UCC_00000682 at RS_UCC_00000700).

142 *See* 2019 Project Transform Liquidity Analysis, p. 2 (ESL-UCC-00005178 at ESL-UCC-00005180).

otherwise strong online sales economy. Moreover, the competitive pressures of pure play e-commerce retailers like Amazon are likely to continue to hinder Sears's growth in this area.

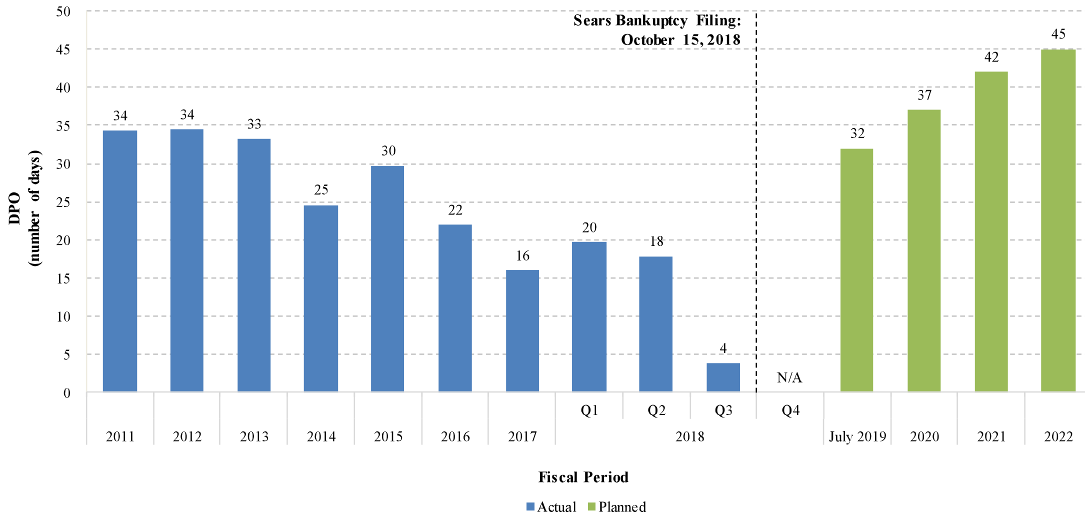
G. The Assumed Improvement in Days Payable Is Speculative

108. Days Payable Outstanding ("DPO") measures the average number of days a company takes to pay its suppliers. From a company's perspective, an increase in DPO is an improvement in this particular efficiency measure and a decrease is a deterioration. The Plan assumes that DPO for the go-forward business will quickly improve within the first few months post-bankruptcy.[143] I agree that it is reasonable to assume some improvement in the payable terms. However, the Plan speculatively assumes the pace and level of DPO improvement. The assumptions belie Sears's historical trend of shortening DPO and are also inconsistent with experience in the prior Kmart bankruptcy.

109. The Plan states that "[p]re-petition DPO was 22 days" and forecasts that Sears's DPO will increase to 32 days by July 2019, just shortly after emerging from bankruptcy. Exhibit 22 shows Sears's historical DPO. As shown in Exhibit 22, the Sears's DPO has been decreasing (that is, deteriorating) well before Sears's bankruptcy filing. The pace of this decline increased rapidly just before the bankruptcy. Sears's DPO shortened from 34 days in the fiscal year 2011 to just 16 days in the fiscal year 2017. Indeed, the Plan's projected DPO of 32 days is roughly equal to the level in 2013, five years prior to the bankruptcy.

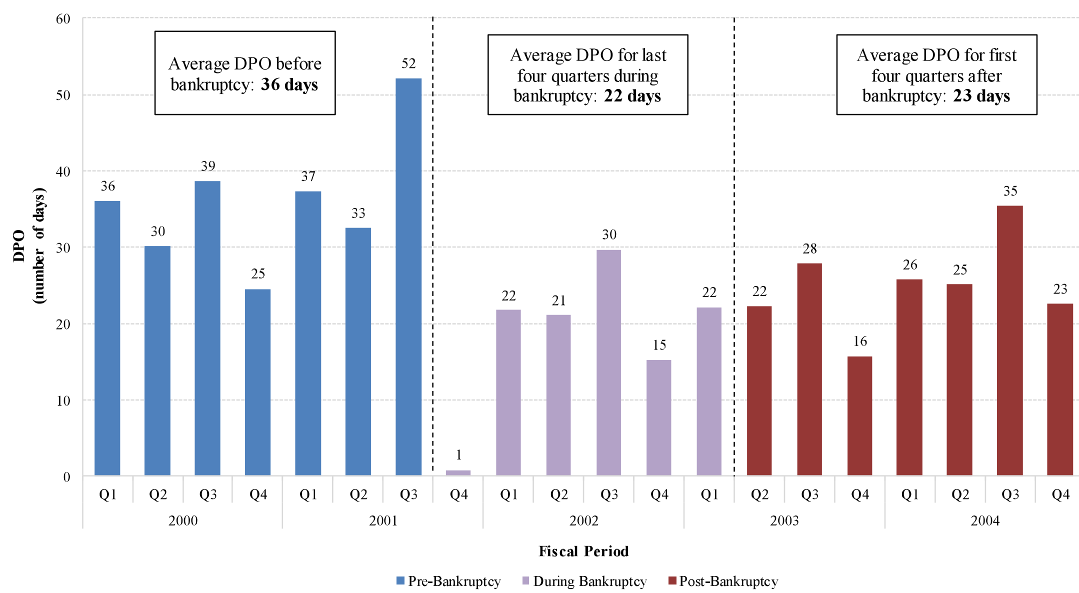
143 *See* 2019 Project Transform Liquidity Analysis, p. 3 (ESL-UCC-00005178 at ESL-UCC-00005181).

Exhibit 22
Comparison of Actual and Planned Sears Days Payable Outstanding ("DPO")



110. The assumption of an immediate reversal is inconsistent with Kmart's own experience following its emergence from bankruptcy in 2003. Exhibit 23 shows that, during the last four quarters of the bankruptcy proceedings, Kmart's DPO was 22 days. After emerging from bankruptcy, its average DPO in the four quarters after the bankruptcy was essentially unchanged at 23 days, and did not recover to its pre-bankruptcy level.

Exhibit 23
Comparison of Kmart DPO Before and After Bankruptcy



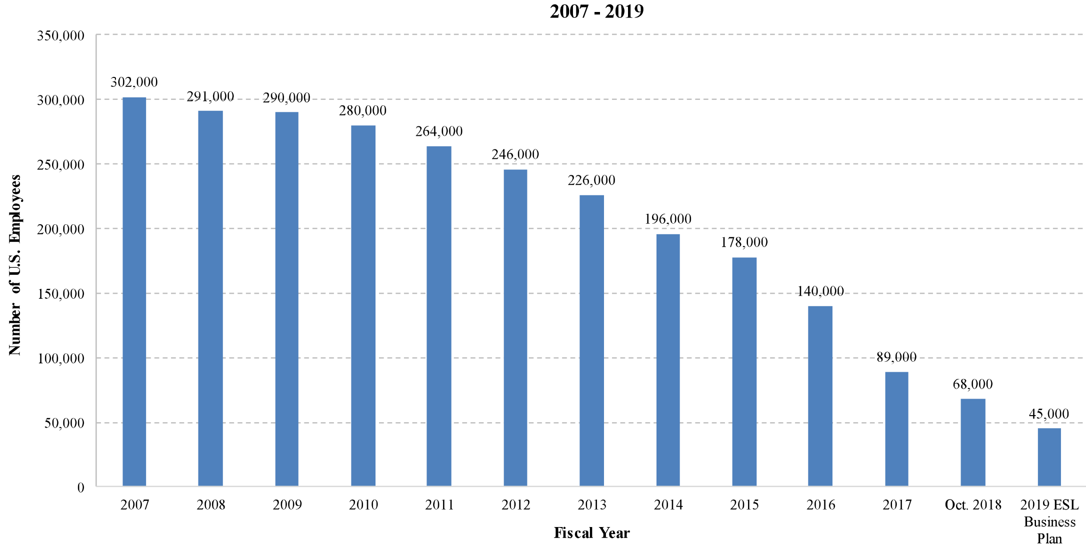
111. In my professional experience, vendors will want to see improvement in Sears's financial and business performance before extending credit terms. Without building up a track

record of observed performance, it is unlikely that Sears could improve its DPO to pre-petition levels as quickly as envisioned in the Plan. A more realistic, but still optimistic assumption would be that it could return to, but not exceed, its pre-bankruptcy levels by the end of 2019.

H. ESL's Employment Projections Cannot Be Sustained

112. In my opinion, if Sears continues to operate under the same ownership with an operating plan that is not meaningfully different from prior management plans, Sears is unlikely to materially improve. This means that its employees will continue to face the high risk of job loss. As described in prior sections, Sears's track record includes many years of consistently optimistic targets, failed targets, store closures, and ultimately job reductions. As shown in Exhibit 24, the number of U.S. Sears employees has declined from 302,000 in 2007 to 68,000 as of October 2018. The Plan projects a further decrease to 45,000. The Plan also shows that Sears is already planning to close additional stores during each month of 2019.[144] This assumption alone would lead to thousands of Sears employees losing their jobs, in addition to those that have lost their jobs since Sears filed for bankruptcy, and the corporate employees that ESL's Plan intends to cut.

Exhibit 24
Total Number of U.S. Sears Employees
2007 - 2019

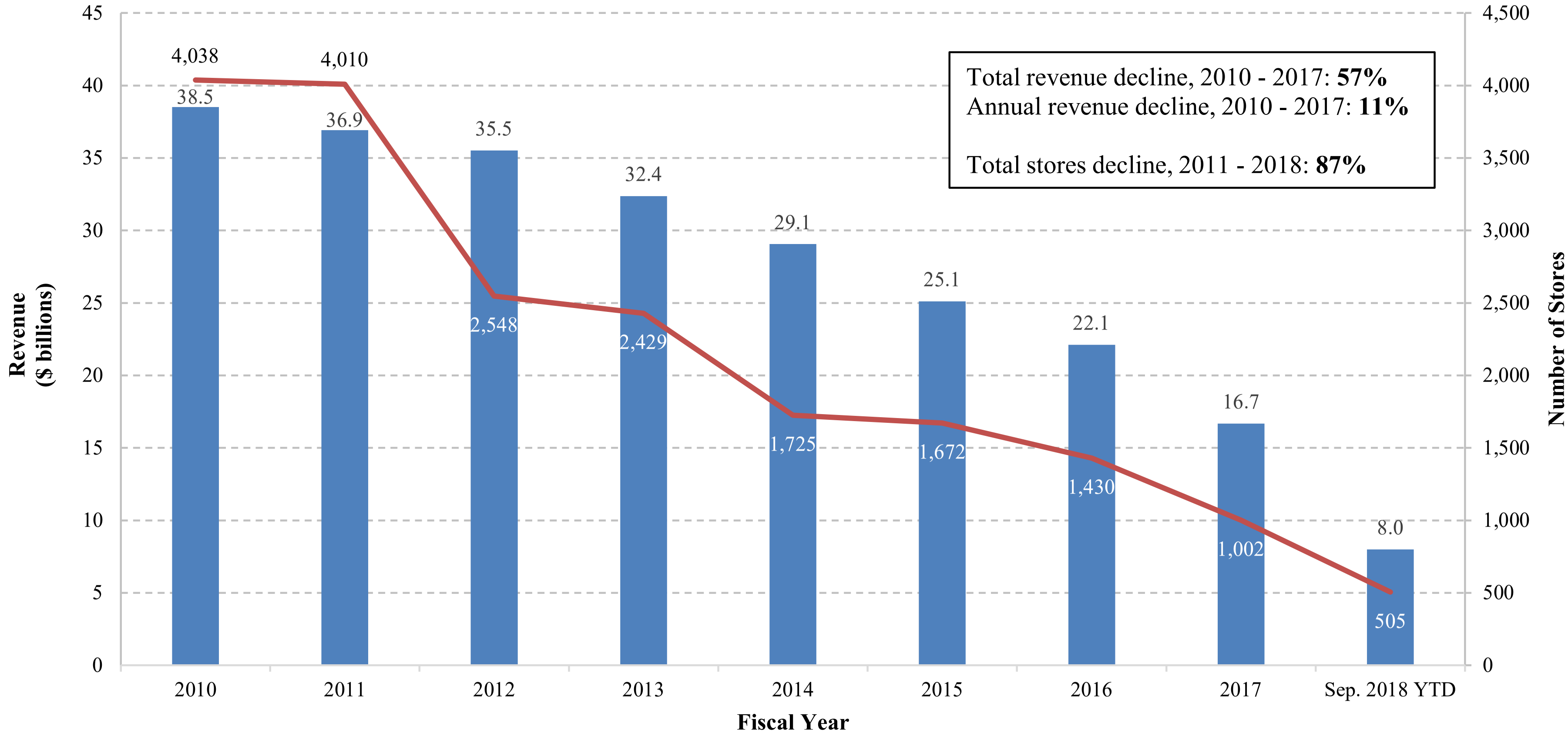


144 *See* 2019 Project Transform Liquidity Analysis, p. 7 (ESL-UCC-00005178 at ESL-UCC-00005184).

J R Kniffen

Jan R. Kniffen
January 26, 2019

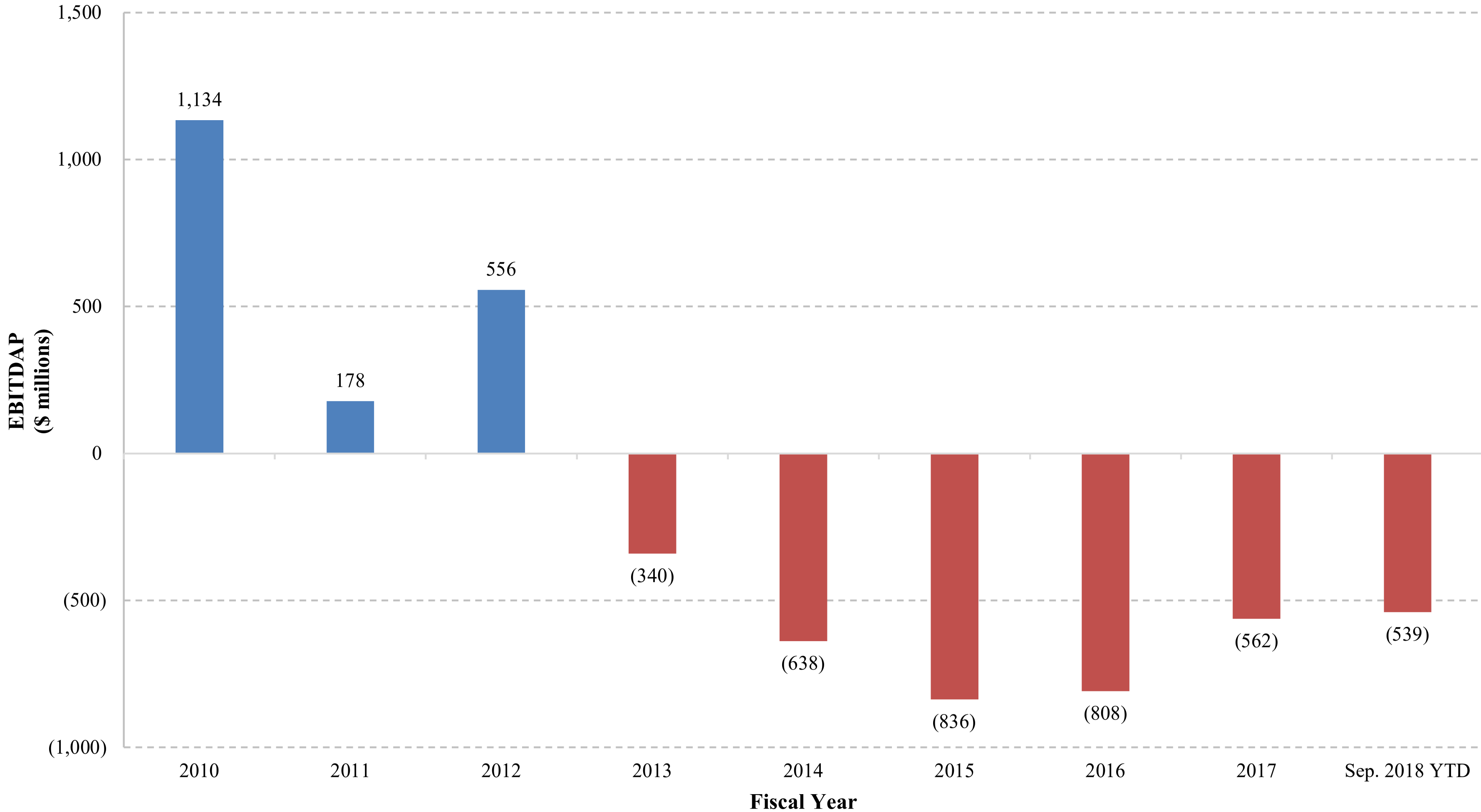
Exhibit 1
Sears Historical Total Revenue and Total Number of Sears Stores
2010 - 2018



Notes:
[1] Fiscal years 2010 through 2013 include stores operated by the Sears Canada business segment. This segment was excluded from the Sears 10-K beginning in 2014 following the de-consolidation of Sears Canada.
[2] The total number of Sears stores as of 2018 is sourced from the 2019 Liquidity Analysis due to the fact that the Sears 10-K for fiscal year 2018 is not yet available.
[3] Sears's fiscal year begins in February.

Sources:
[1] Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.
[2] Sears Holdings Corp., 2010-2017 Forms 10-K.
[3] 2019 Project Transform Liquidity Analysis.

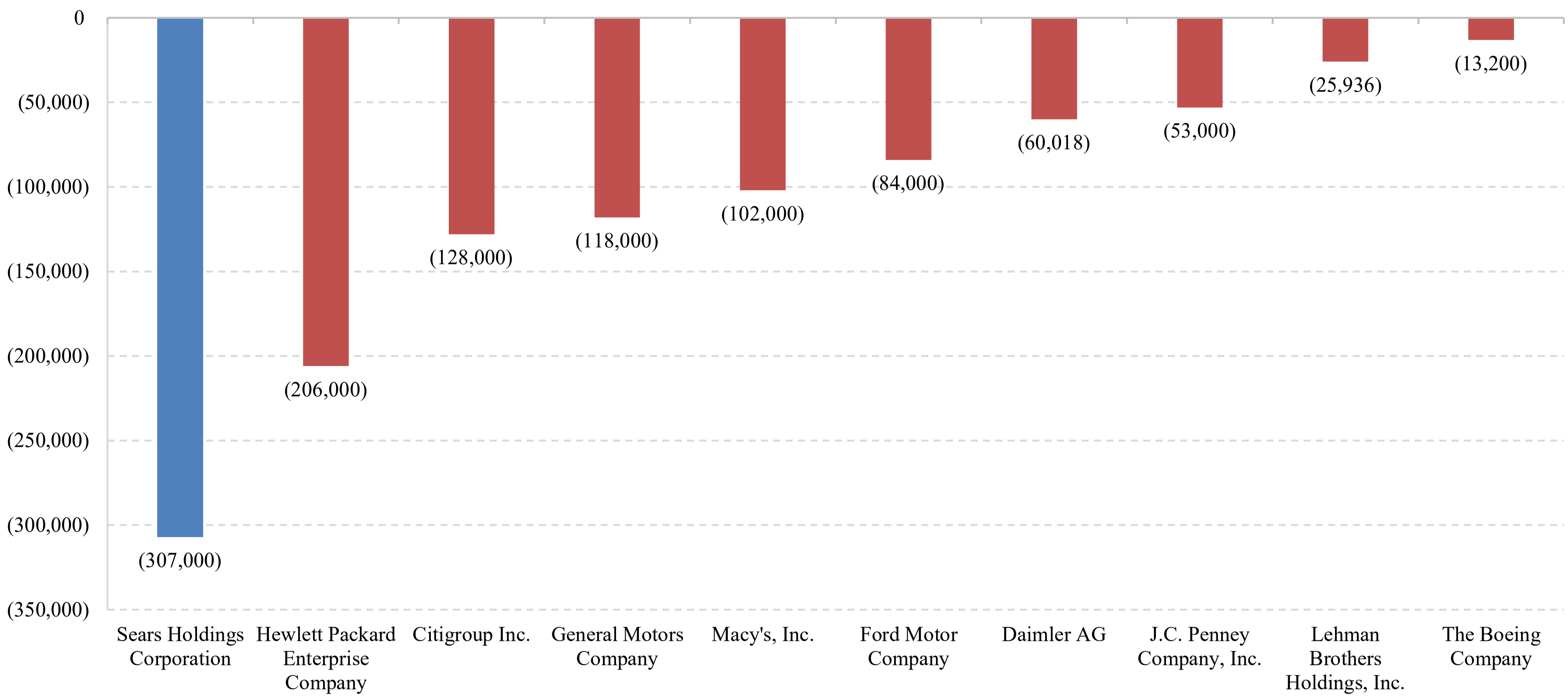
Exhibit 2
Sears Historical EBITDAP
2010 - 2018



Notes:
[1] EBITDAP excludes non-comp items and REIT/JV rent.
[2] Sears's fiscal year begins in February.

Source:
[1] Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.

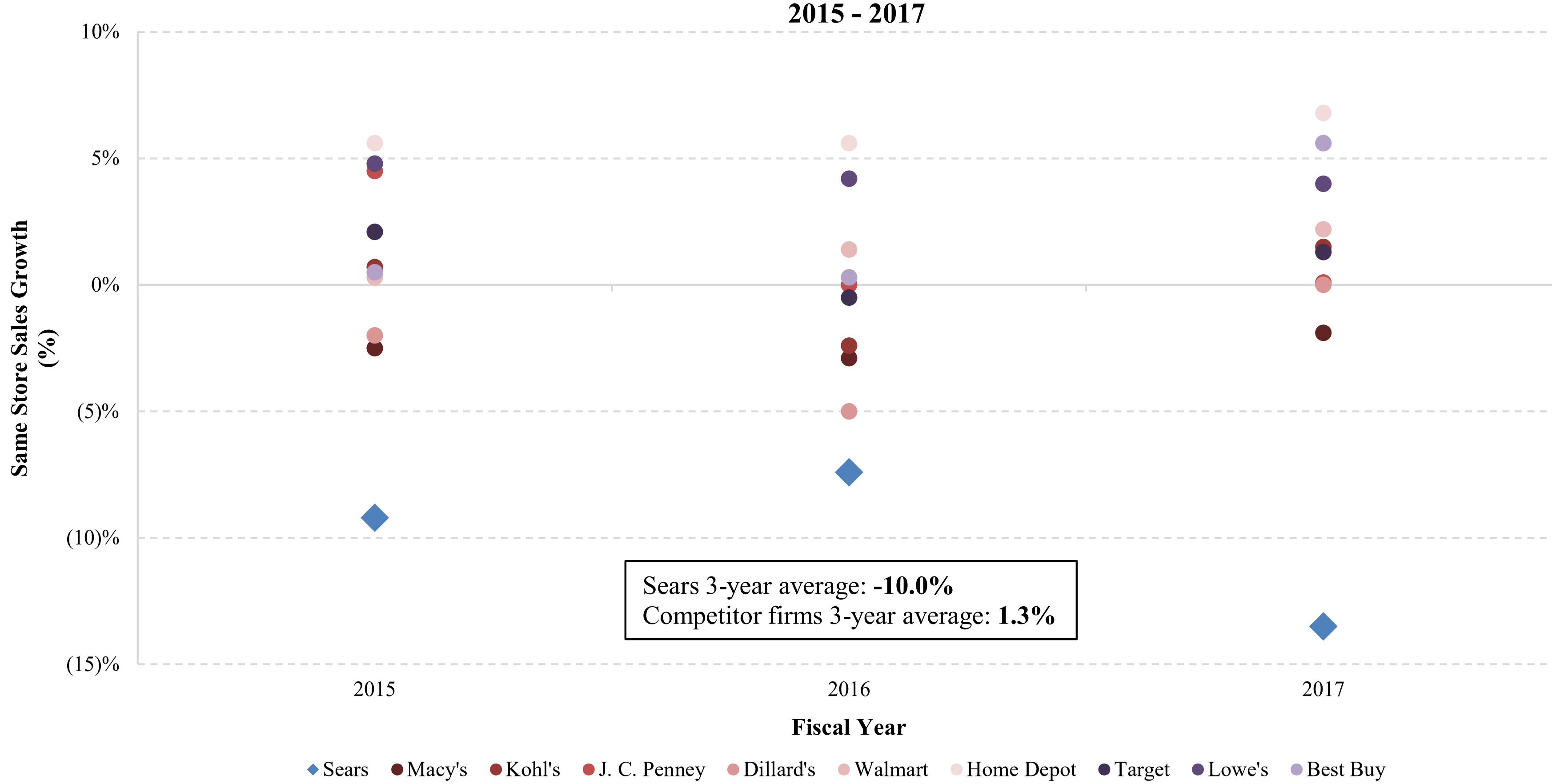
Exhibit 3
Total Job Cuts
2007 - 2018



Notes:
[1] Total job cuts for each company are calculated as the sum of the year-over-year change in number of global employees.
[2] The total number of Sears job cuts includes the job cuts in the 2019 ESL Business Plan that would reduce the total employees from 68,000 to 45,000.
[3] The Hewlett Packard Enterprise year-over-year change includes the job cuts for HP Inc. ("HPQ").
[4] The GM year-over-year change for 2018 is sourced from the Q3 2018 10-Q assuming full utilization of voluntary severance program.
[5] Ford Motor Company reported its total number of employees for Fiscal Year 2018 in a January 2019 8-K.
[6] The total number of Daimler employees in 2018 is as of Q3 2018.
[7] The latest total number of Boeing employees is as of Fiscal Year 2017.

Sources:
[1] S&P Capital IQ, https://www.capitaliq.com/ (last visited Jan. 25, 2019).
[2] Daimler AG, Interim Report Q3 2018, Oct. 25, 2018.
[3] Ford Motor Co., Form 8-K, filed Jan. 23, 2019, Exhibit 99.2.

Exhibit 4
Comparison of Sears and Select Competitors
Same Store Sales Growth
2015 - 2017



Notes:
[1] Select competitors were chosen based on companies that are listed as comparable companies in the combination of analyst reports, Thomson, and Capital IQ.
[2] Macy's, Kohl's, J.C. Penney, Dillard's, Walmart, Home Depot, Target, Lowe's, and Best Buy had 3-year averages of -2.4%, -0.1%, 1.5%, -2.3%, 1.3%, 6.0%, 1.0%, 4.3%, and 2.1%, respectively.

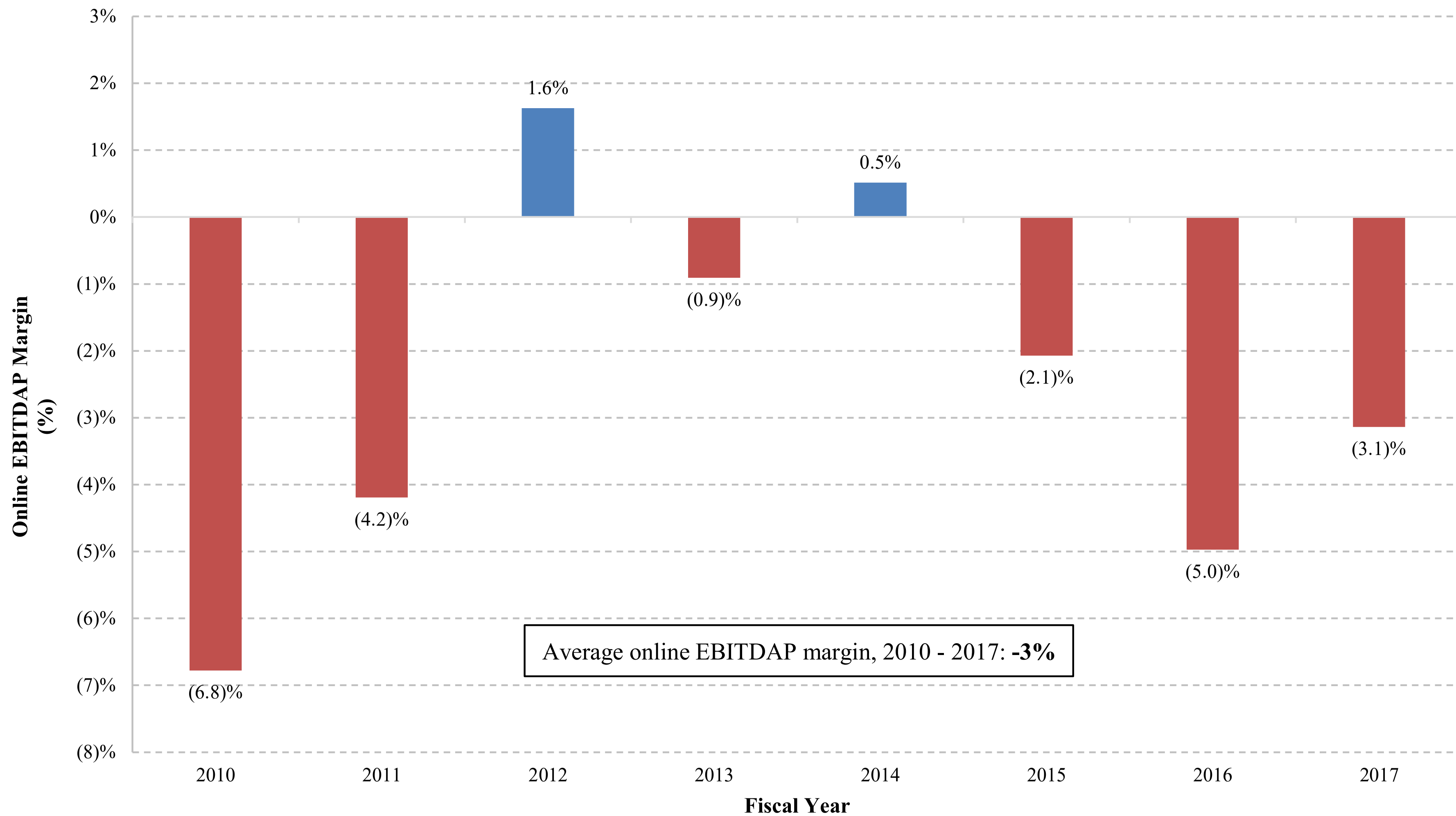
Sources:
[1] S&P Capital IQ, https://www.capitaliq.com/ (last visited Jan. 25, 2019).
[2] Lowe's Co., Inc., 2017 Form 10-K, filed Apr. 2, 2018.
[3] Target Corp., 2017 Form 10-K, filed Mar. 14, 2018.
[4] The Home Depot, Inc., 2017 Form 10-K, filed Mar. 21, 2018.
[5] Walmart Inc., 2017 Form 10-K, filed Mar. 30, 2018.

Exhibit 5
U.S. Department Store Sales Growth
2002 - 2018

Note:
[1] November and December 2018 data is not available. Therefore, 2018 sales growth is calculated by comparing to the same period in 2017 (January - October 2017).

Source:
[1] United States Census Bureau, "Time Series / Trend Charts," https://www.census.gov/econ/currentdata/ (last visited Jan. 18, 2019).

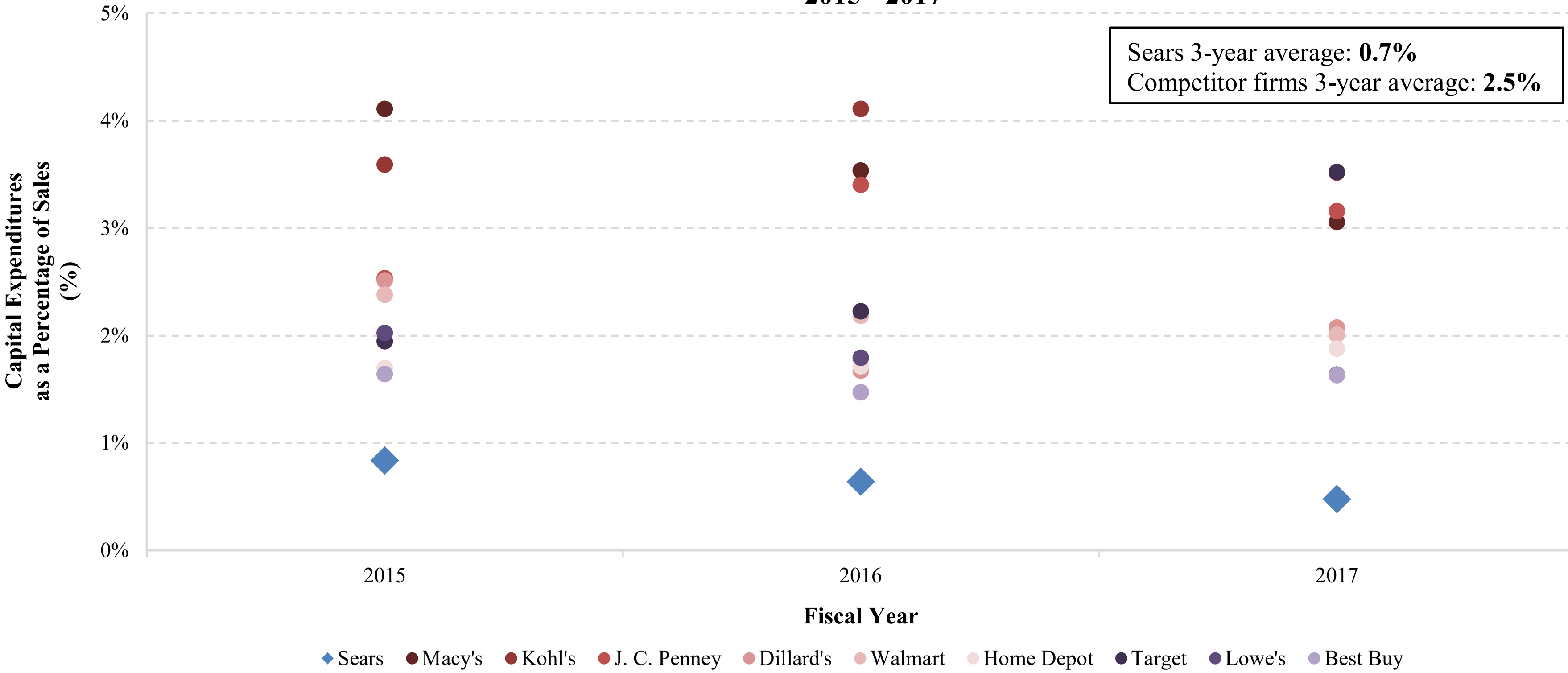
Exhibit 6
Historical Sears Online EBITDAP Margin
2010 - 2017



Notes:
[1] Historical Sears online EBITDAP margins are calculated by dividing the total business profits by total revenues for the "Online w/ Memo" category.
[2] Sears's fiscal year begins in February.

Source:
[1] Sears Holdings Corp., *FY 2010-2018 BU Recaps.xlsx*.

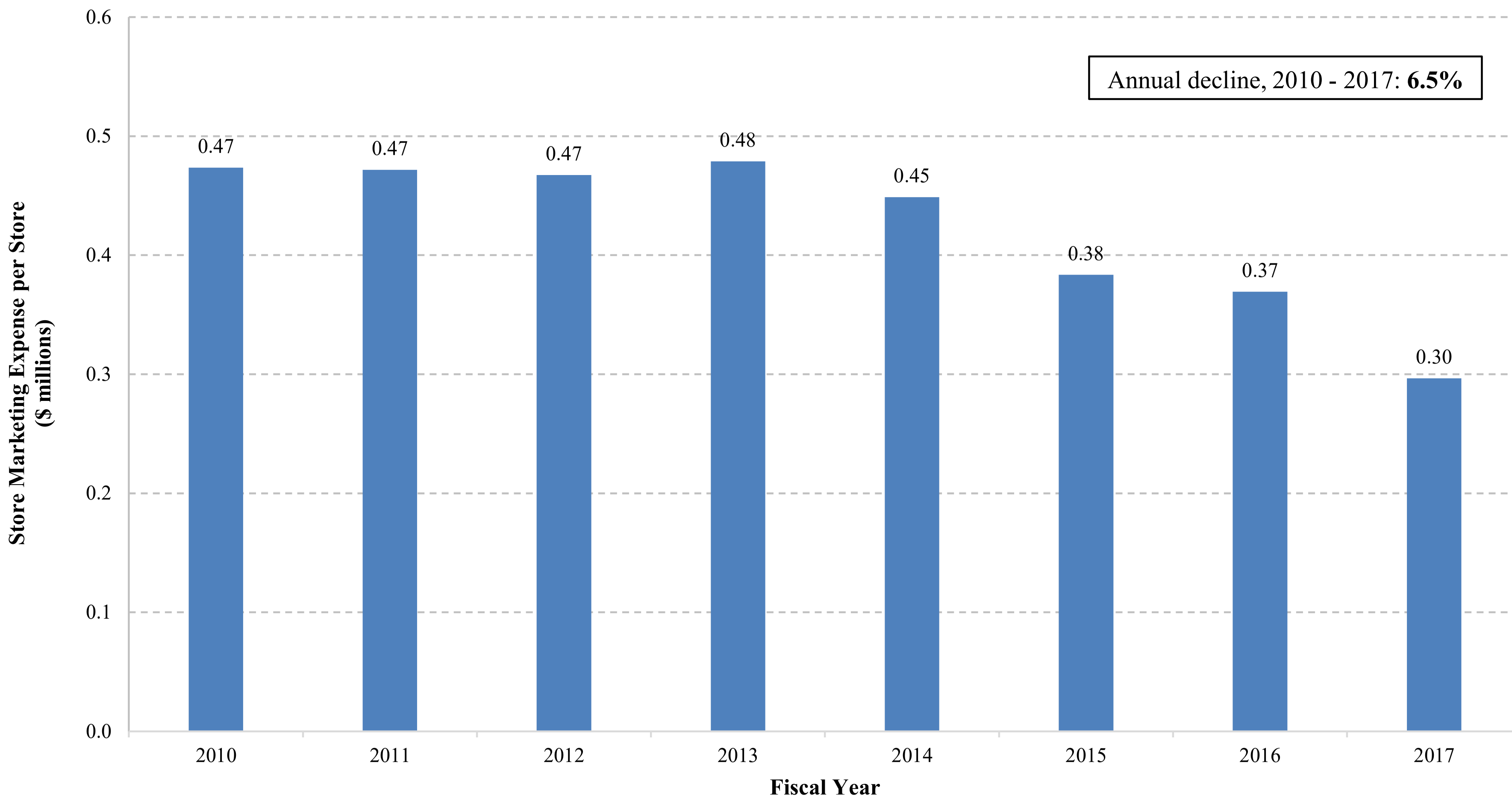
Exhibit 7
Comparison of Sears and Select Competitors
Capital Expenditures as a Percentage of Sales
2015 - 2017



Notes:
[1] Select competitors were chosen based on companies that are listed as comparable companies in the combination of analyst reports, Thomson, and Capital IQ.
[2] Macy's, Kohl's, J.C. Penney, Dillard's, Walmart, Home Depot, Target, Lowe's, and Best Buy had 3-year averages of 3.6%, 3.7%, 3.0%, 2.1%, 2.2%, 1.8%, 2.6%, 1.8%, and 1.6%, respectively.

Sources:
[1] Dillard’s, Inc., 2015-2017 Forms 10-K.
[2] J. C. Penney Co., Inc., 2017 Form 10-KA, Amendment No. 1 to Annual Report, filed May 30, 2018.
[3] Kohl’s Corp., 2017 Form 10-K, filed Mar. 23, 2018.
[4] Lowe’s Co., Inc., 2017 Form 10-K, filed Apr. 2, 2018.
[5] Macy’s Inc., 2017 Form 10-K, filed Apr. 4, 2018.
[6] Sears Holdings Corp., 2017 Form 10-K, filed Mar. 23, 2018.
[7] Target Corp., 2017 Form 10-K, filed Mar. 14, 2018.
[8] The Home Depot, Inc., 2017 Form 10-K, filed Mar. 21, 2018.
[9] Walmart Inc., 2017 Form 10-K, filed Mar. 30, 2018.

Exhibit 8
Total Marketing Expense per Store
2010 - 2017



Notes:
[1] Marketing expenses are limited to store and online marketing expenses charged to Sears and Kmart full-line stores.
[2] The total marketing expense per store is calculated based on the number of U.S. full-line stores.
[3] Sears's fiscal year begins in February.

Sources:
[1] Sears Holdings Corp., *FY 2010-2018 BU Recaps.xlsx*.
[2] Sears Holdings Corp., 2010-2017 Forms 10-K.

Exhibit 9
Overview of Sears Initiatives Outlined in Management Plans and 2019 ESL Business Plan
2013 - 2019

Initiatives	Management Plans 2013	2014	2015	2016	2017	2018	2019 ESL Business Plan
Revenue Drivers							
More Offers From Loyalty Program - Shop Your Way ("SYW")	x	x	x	x	x	x	x
Promotional Effectiveness	x	x	x	x	x	x	
Store Clustering					x	x	
Better In-Stock Rates for Replenishment Products			x	x			x
Improved Pricing (Localized, Targeted, Dynamic, etc.)	x	x	x	x	x	x	x
Cost Initiatives							
LEAN - Portfolio of Cross Company Initiatives	x	x	x				
Headcount Reduction		x	x	x	x	x	x
SKU and Vendor Reduction / Elimination		x	x	x	x		x
Strategic Sourcing for Products		x	x	x	x	x	
Consolidate Vendors Across Sears and Kmart		x					x
Digital Marketing ROI Improvement	x	x	x	x	x	x	x
Traditional Marketing ROI Improvement	x	x	x	x	x	x	x
Reduce Square Feet in Apparel		x					
Single Product Master (allows system consolidation)							x
Go-Get/Unidentified	x	x	x	x	x	x	?

Notes:

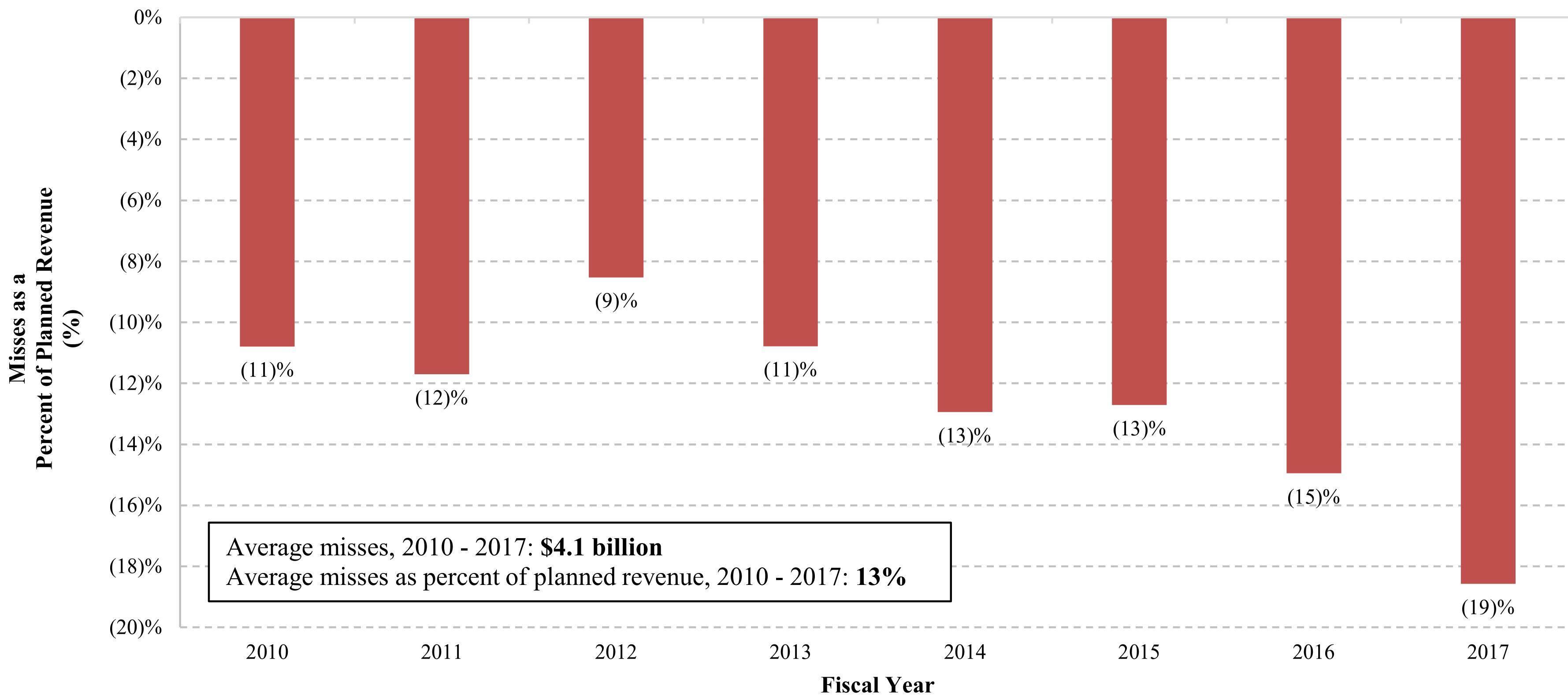
[1] The above list includes selected initiatives from the Management Plans, 2019 ELS Business Plan, and interview transcripts.

[2] Mr. Kamlani stated that there are no "go-gets" in the 2019 ESL Business Plan (*See* Kamlani Deposition, pp. 96-97). However, I was not able to identify initiatives to account for the full extent of the planned improvement. For example, the Plan requires a 125 bps improvement in margin for 2019 over 2018, which is approximately $100 million in additional earnings based on 2019 planned revenue of $7.9 billion. The management plan for 2019, on which the Plan is based on, identifies numerous initiatives, only two of which could plausibly impact gross margin. Those are assortment optimization and in-stock and replenishment initiatives, and their joint impact is $38 million, short of the $100 million envisioned by the Plan.

Sources:

[1] Sears Holdings Corp., *2013 Plan Update* , Jan. 23, 2013, pp. 6-7, 10, 12, 20-23, 46, and 52-75.
[2] Sears Holdings Corp., *2014 Plan Review* , Jan. 22, 2014, pp. 21-129.
[3] Sears Holdings Corp., *2015 Plan Review* , Jan. 21, 2015, pp. 37-53.
[4] Sears Holdings Corp., *2016 Plan Update* , Jan. 28, 2016, pp. 8, 11, 13, and 18.
[5] Sears Holdings Corp., *2017 Plan Update* , Feb. 8, 2017, pp. 4 and 19-21.
[6] Sears Holdings Corp., *2018 Plan Review* , Jan. 30, 2018, pp. 10-11 and 13-14.
[7] Sears Holdings Corp., *Preliminary Business Plan* , Dec. 2018, p. 18.
[8] 2019 Project Transform Liquidity Analysis, pp. 2 and 4.
[9] 2019 Project Transform Business Plan, pp. 4, 6, 46, 51, 52, and 53.
[10] Riecker Interview Transcript.
[11] Lampert Interview Transcript.
[12] Sinha Interview Transcript.
[13] Kamlani Interview Transcript.

Exhibit 10
Comparison of Sears Actual and Planned Total Revenue
2010 - 2017

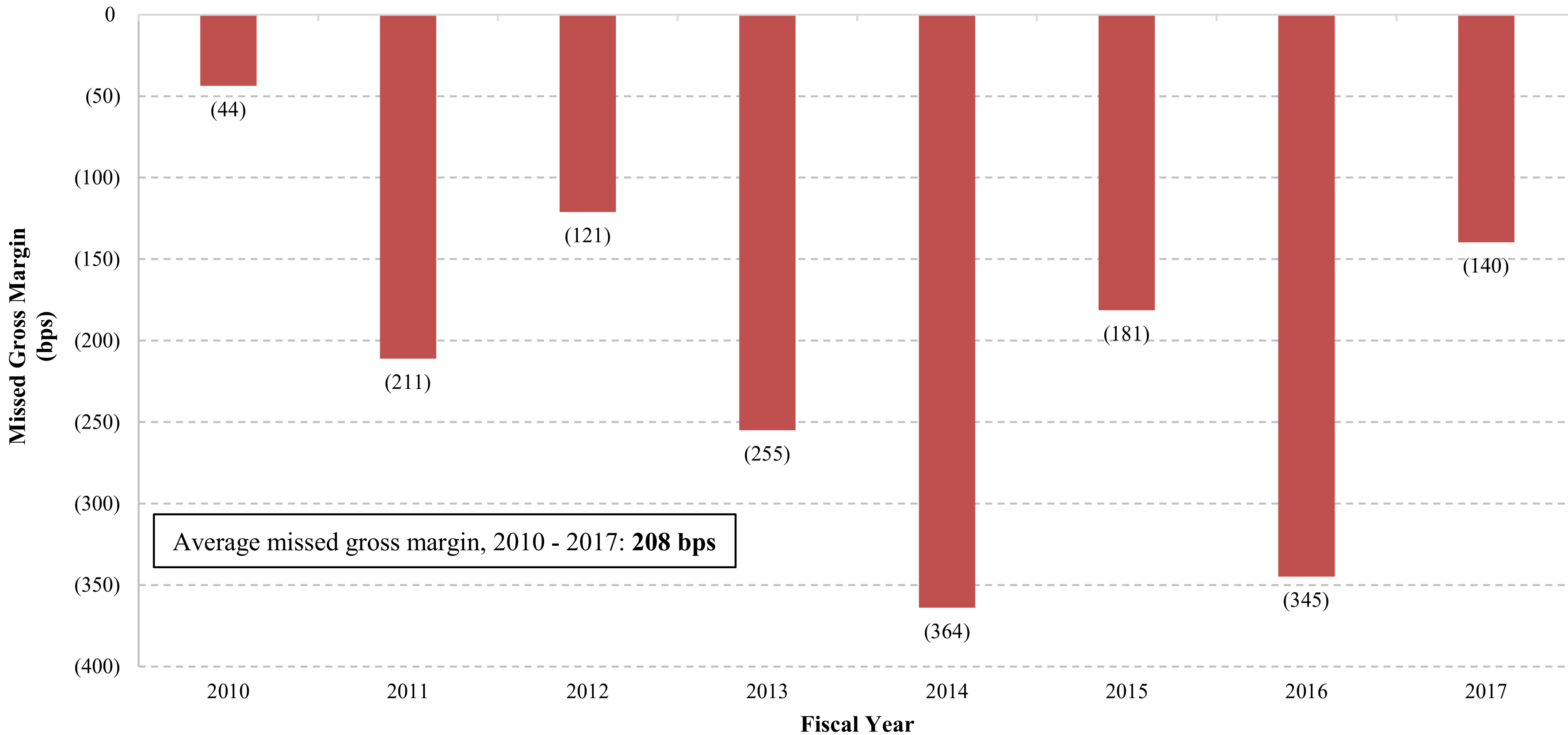


	2010	2011	2012	2013	2014	2015	2016	2017
Planned Revenue ($ millions)	43,183	41,816	38,840	36,282	33,380	28,766	26,000	20,492
Actual Revenue ($ millions)	38,524	36,923	35,528	32,370	29,061	25,110	22,113	16,686
Missed Revenue ($ millions)	4,660	4,893	3,312	3,912	4,319	3,656	3,887	3,806
Missed Revenue (%)	11%	12%	9%	11%	13%	13%	15%	19%

Note:
[1] Sears's fiscal year begins in February.

Source:
[1] Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.

Exhibit 11
Comparison of Sears Actual and Planned Gross Margin
2010 - 2017

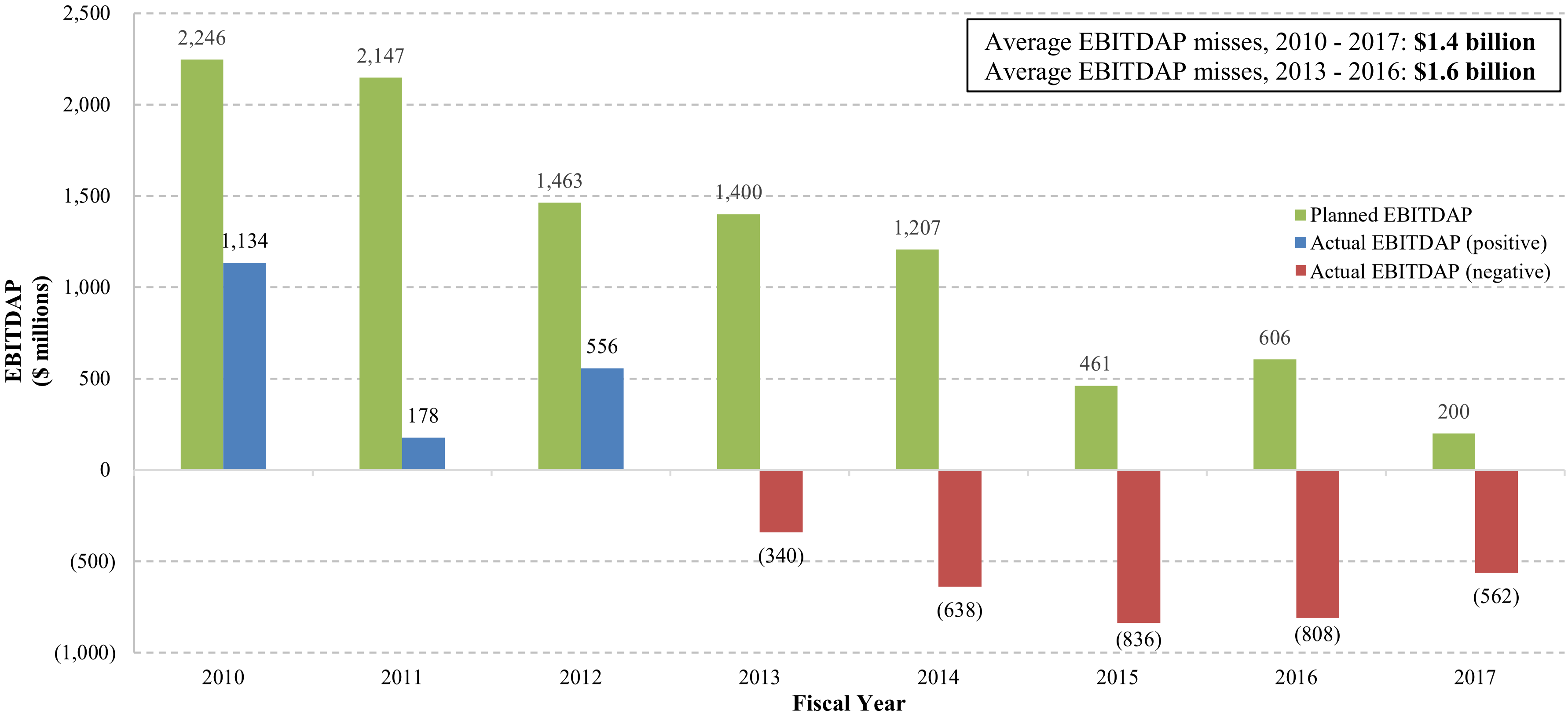


	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Planned Gross Margin	37.2%	37.3%	36.7%	35.8%	36.2%	34.7%	36.1%	35.7%
Actual Gross Margin	36.8%	35.2%	35.5%	33.2%	32.6%	32.9%	32.6%	34.3%
Missed Gross Margin (bps)	44	211	121	255	364	181	345	140

Note:
[1] Sears's fiscal year begins in February.

Source:
[1] Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.

Exhibit 12
Comparison of Sears Actual and Planned EBITDAP
2010 - 2017

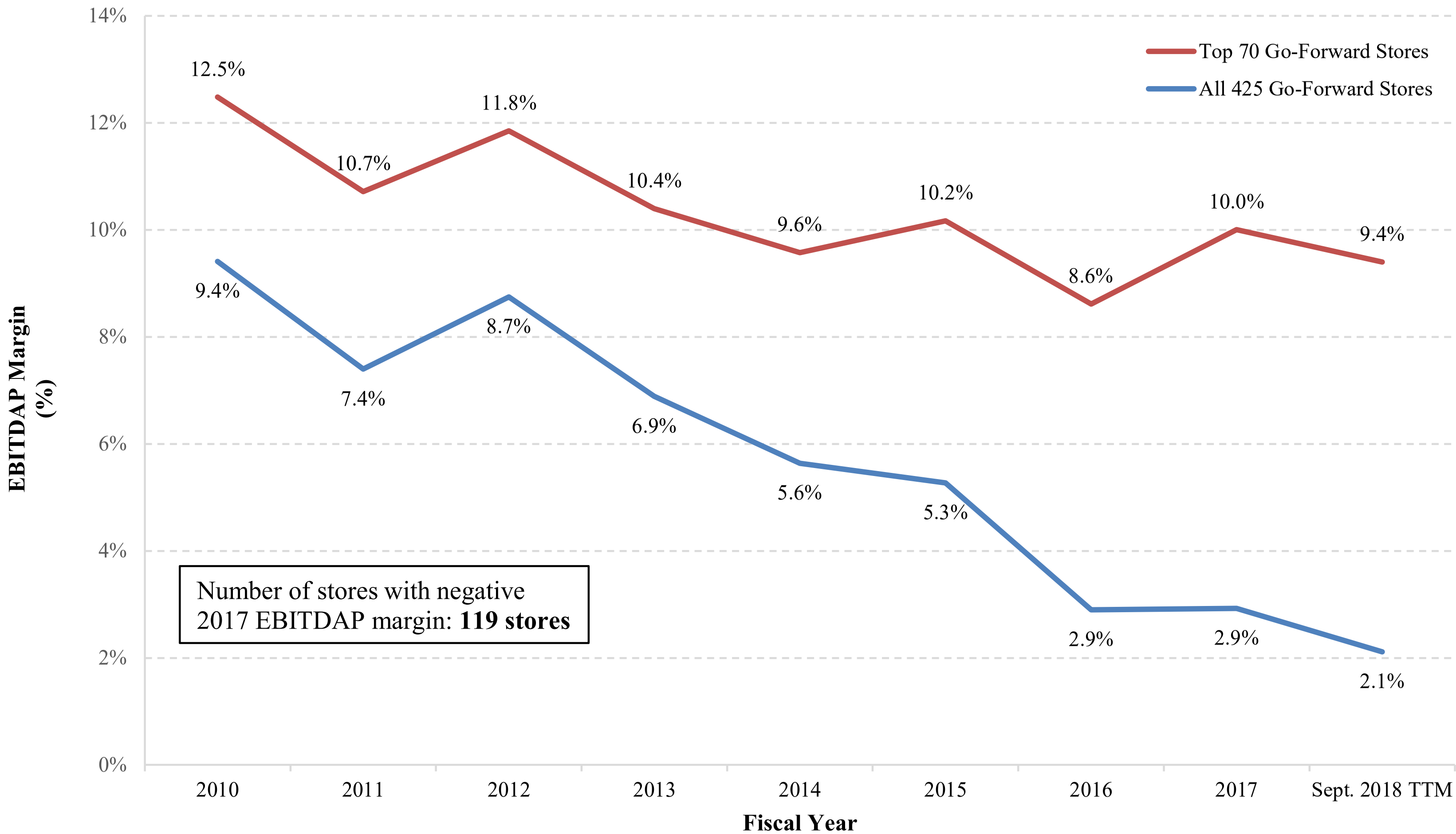


	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Missed EBITDAP as a Percent of Planned EBITDAP	50%	92%	62%	124%	153%	281%	233%	381%

Notes:
[1] EBITDAP excludes non-comp items and REIT/JV rent.
[2] Sears's fiscal year begins in February.

Source:
[1] Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.

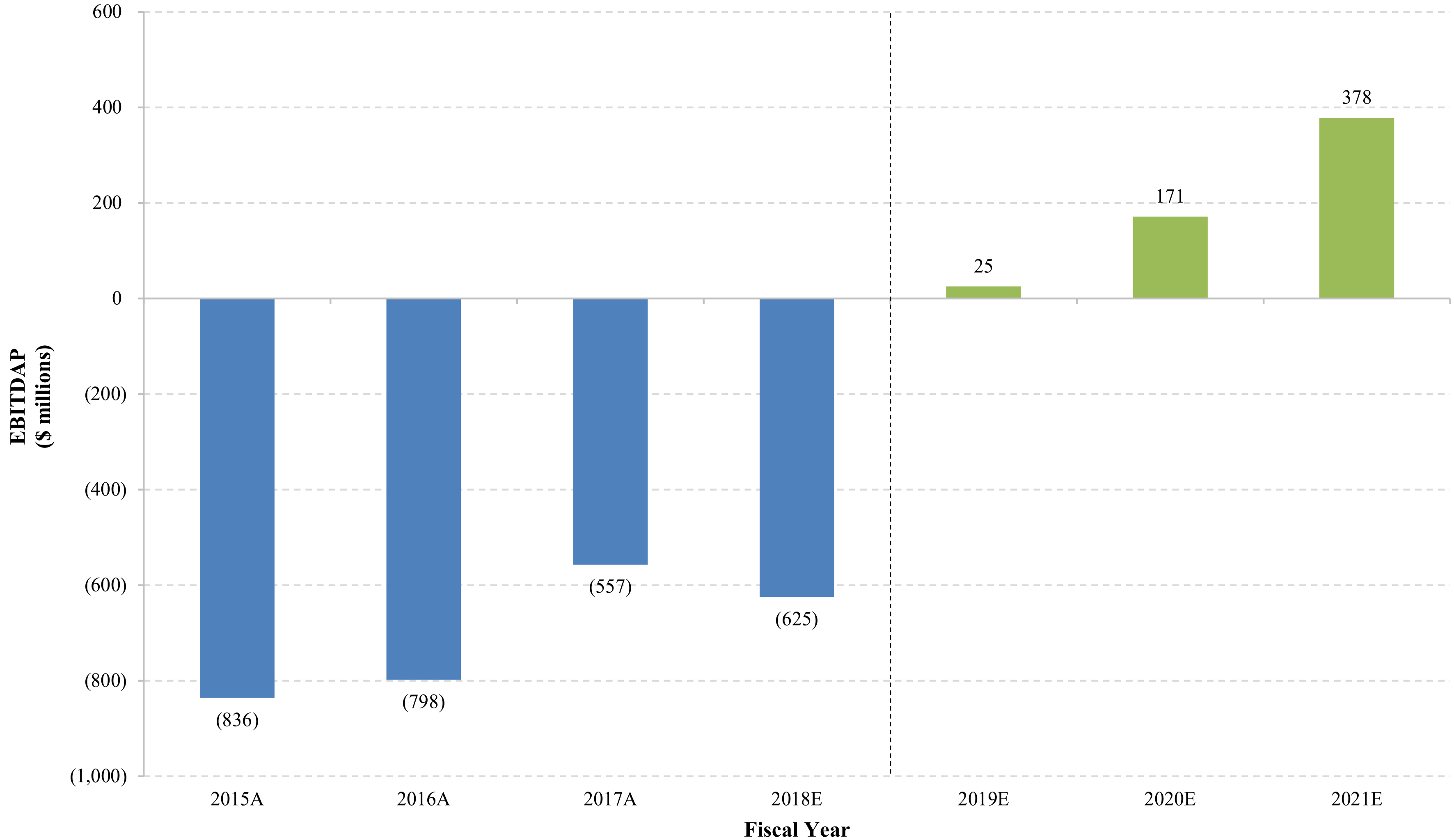
Exhibit 13
Historical EBITDAP Margins for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2010 - 2018



Notes:
[1] Top 70 stores are selected from the 425 ongoing stores based on 2017 EBITDAP margin, *i.e.*, all 425 Go-Forward Stores includes the Top 70 Go-Foward Stores.
[2] Sears's fiscal year begins in February.

Sources:
[1] Sears Holdings Corp., *505 + SAC 24 Trailing Months (2).xlsx*.
[2] Sears Holdings Corp., *2010-17 Store Data by Year.xlsx*.

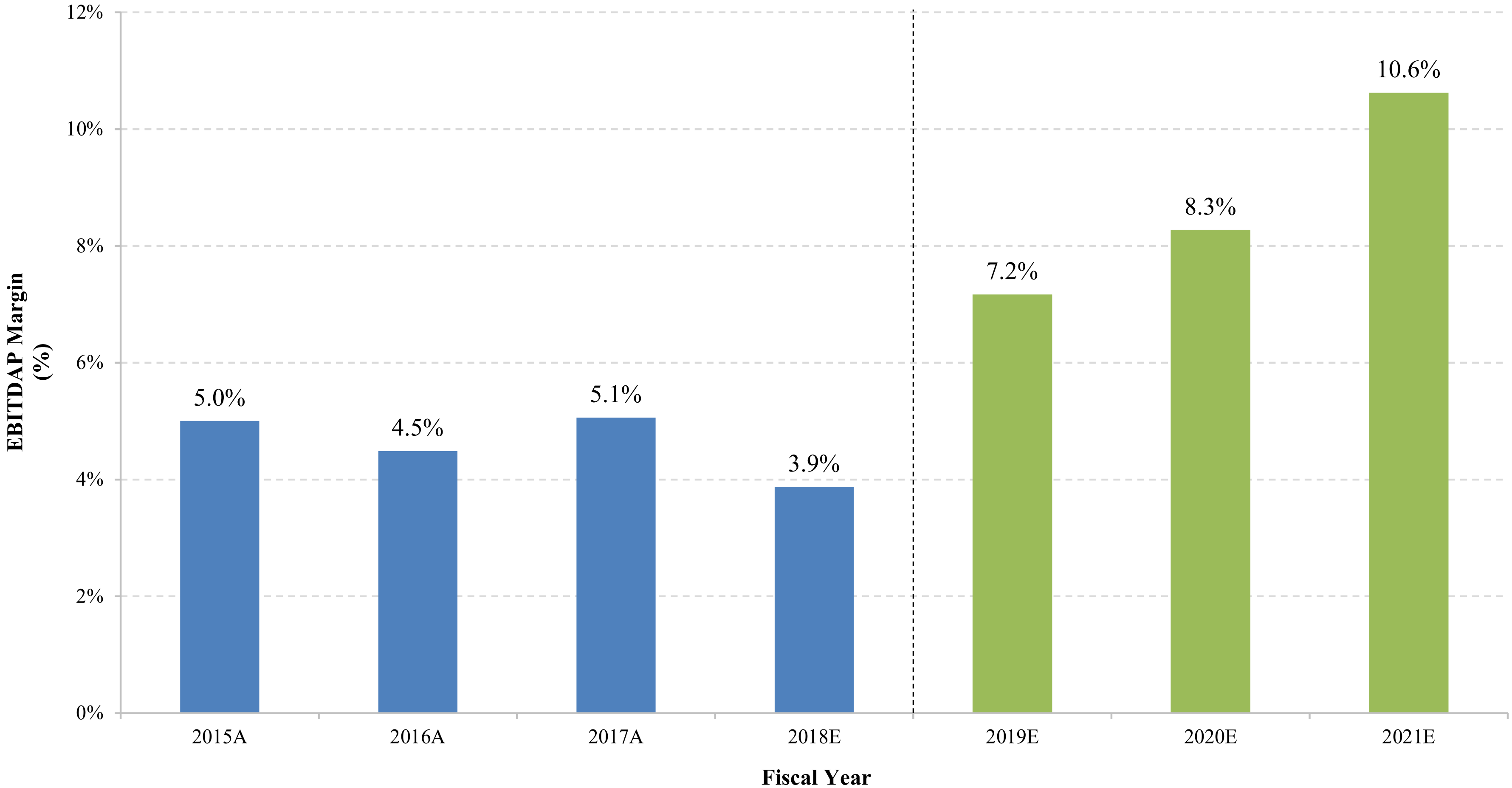
Exhibit 14
Comparison of Sears Prior EBITDAP to Forecasted EBITDAP in the 2019 ESL Business Plan
2015 - 2021



Note:
[1] Sears's fiscal year begins in February.

Source:
[1] 2019 Project Transform Liquidity Analysis.

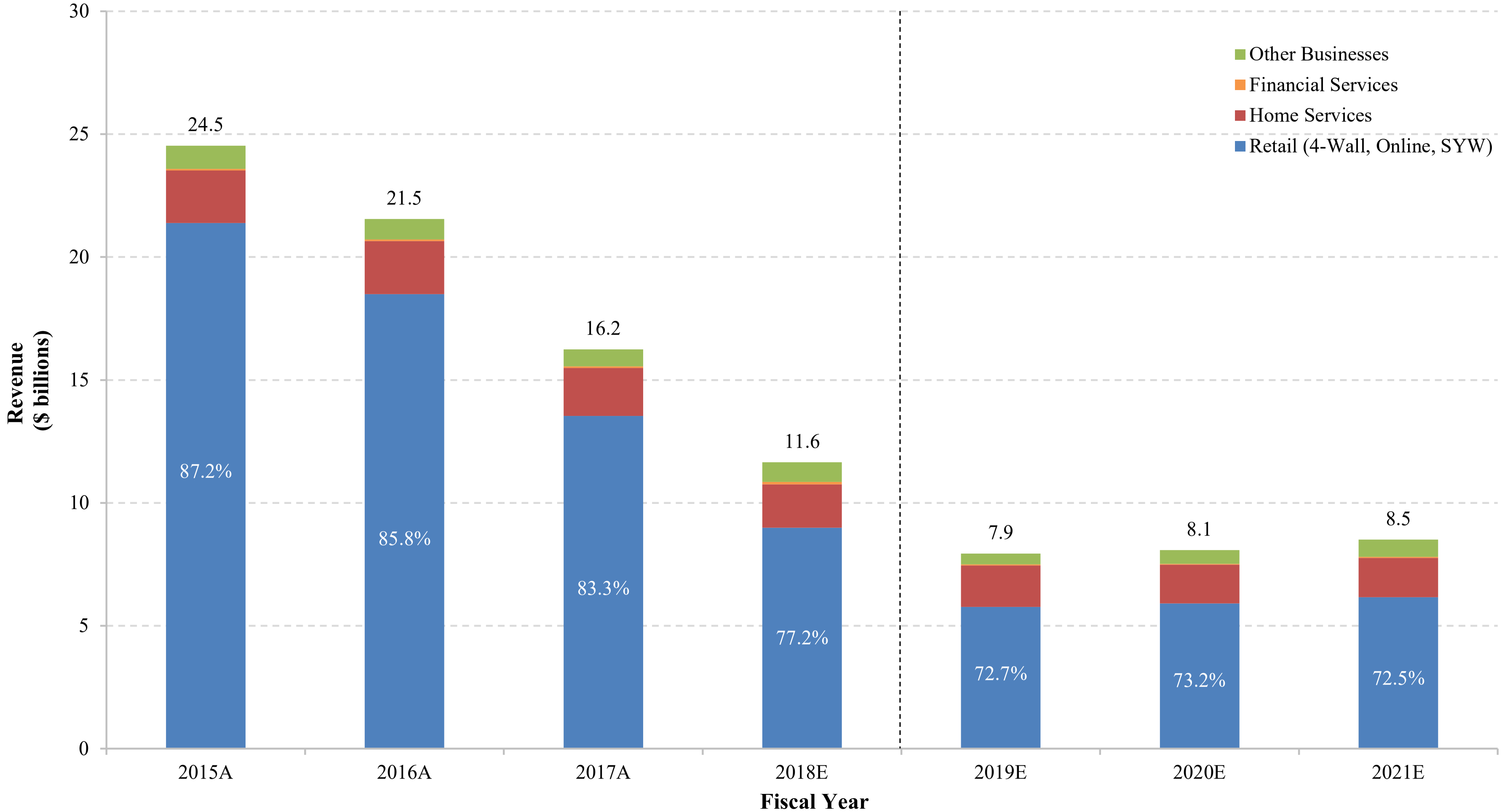
Exhibit 15
Sears Business Unit EBITDAP Margin before Deducting Corporate SG&A and Other Adjustments
2015 - 2021



Notes:
[1] Business Unit EBITDAP Margin before deducting Corporate SG&A and Other Adjustments denotes operating margins before Home Office / Corporate SG&A and Supply Chain and Innovel.
[2] The reported operating margins come from the 2019 Liquidity Analysis prepared by ESL.
[3] Sears's fiscal year begins in February.

Source:
[1] 2019 Project Transform Liquidity Analysis.

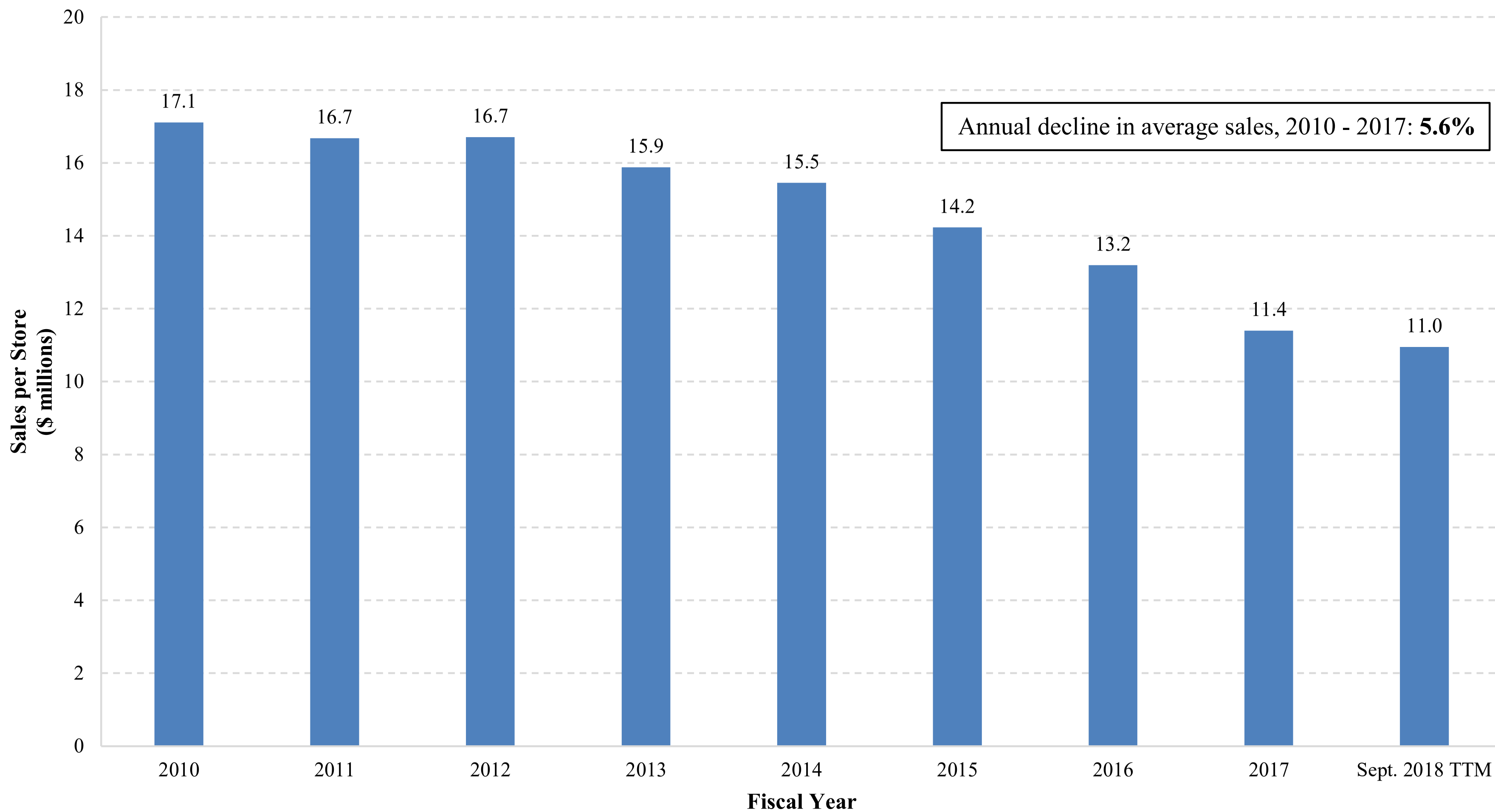
Exhibit 16
Sears Actual and Planned Revenues by Business Units
2015 - 2021



Notes:
[1] Percentages denote retail revenue as a percent of total revenue.
[2] Sears's fiscal year begins in February.

Source:
[1] 2019 Project Transform Liquidity Analysis.

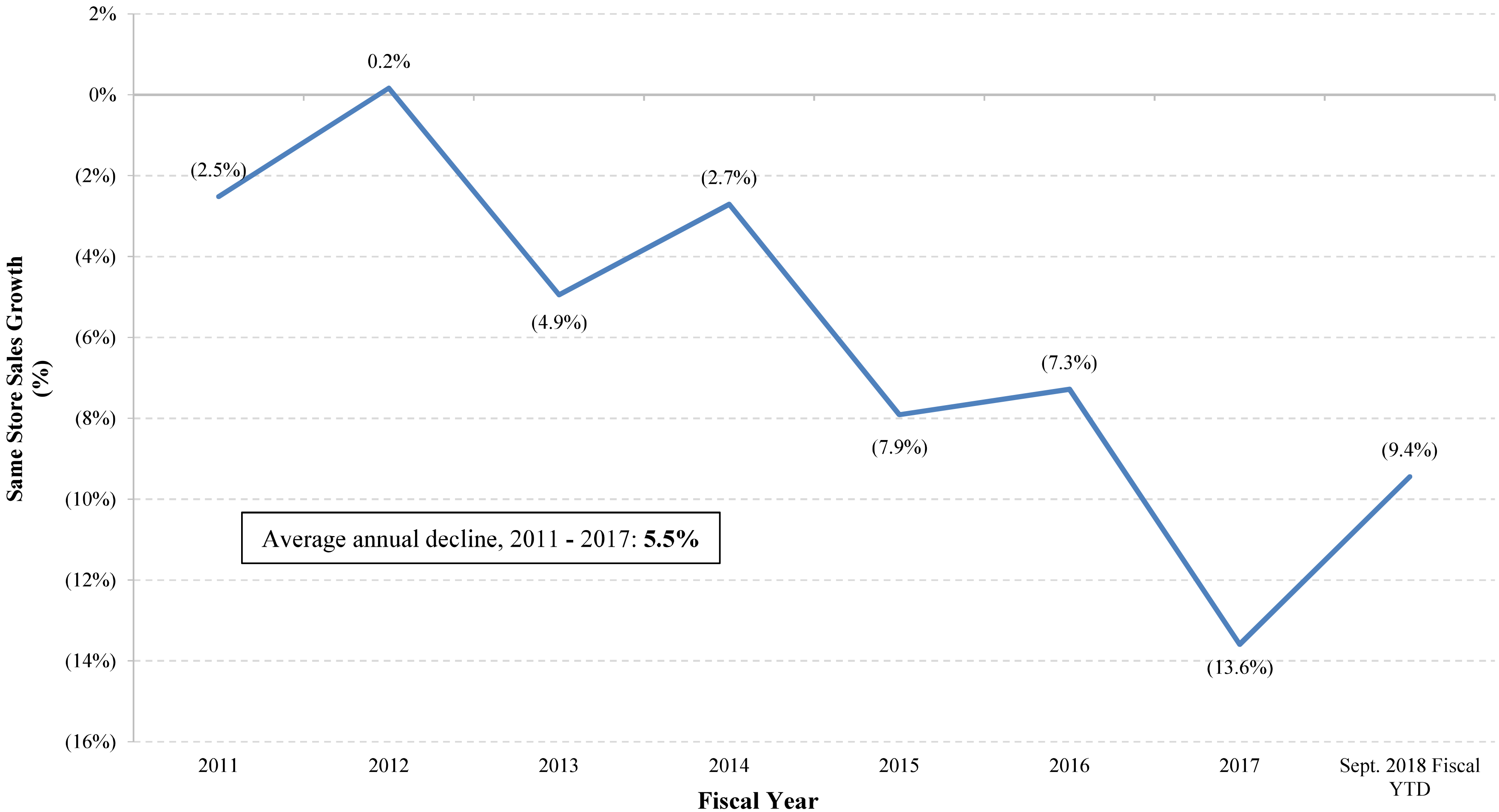
Exhibit 17
Historical Average Sales per Store for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2010 - 2018



Note:
[1] Sears's fiscal year begins in February.

Sources:
[1] Sears Holdings Corp., *505 + SAC 24 Trailing Months (2).xlsx*.
[2] Sears Holdings Corp., *2010-17 Store Data by Year.xlsx*.

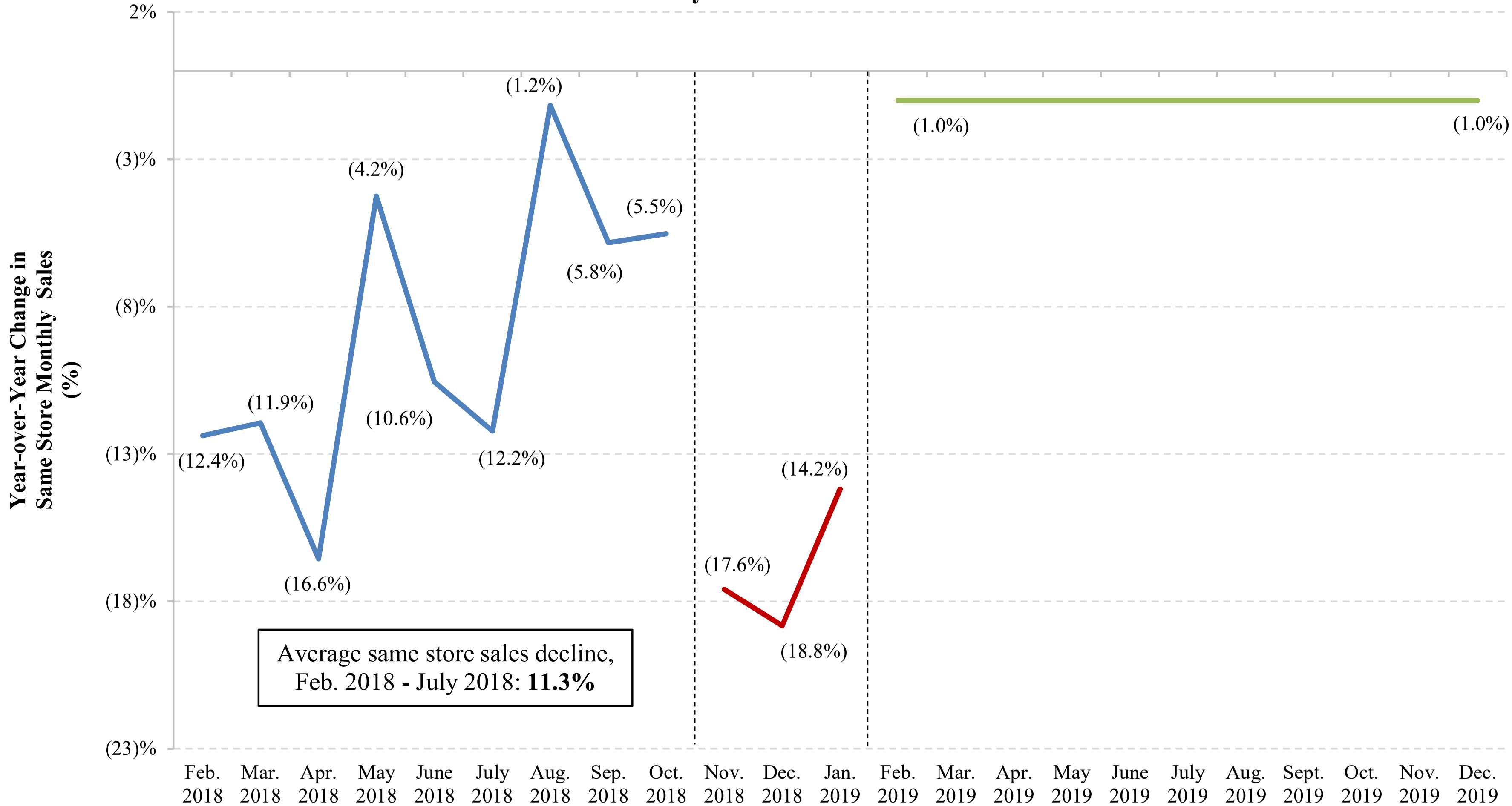
Exhibit 18
Same Store Sales Growth for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
2011 - 2018



Note:
[1] Sears's fiscal year begins in February. Sept. 2018 Fiscal YTD shows the same store sales growth for the months February through September of 2018.

Sources:
[1] Sears Holdings Corp., *505 + SAC 24 Trailing Months (2).xlsx*.
[2] Sears Holdings Corp., *2010-17 Store Data by Year.xlsx*.

Exhibit 19
Year-over-Year Change in Same Store Monthly Sales for 425 Go-Forward Sears Stores in 2019 ESL Business Plan
February 2018 - December 2019



Note:
[1] Year over year change in same store monthly sales for November 2018 - January 2019 are for 545 stores as of January 2019. This includes 40 Going Out of Business ("GOB") stores, until those stores are closed.

Source:
[1] Sears Holdings Corp., *505 + SAC 24 Trailing Months (2).xlsx*.
[2] Sears Holdings Corp., *SSS Weekly Sales Reports*.

Exhibit 20
Performance by Business Unit
2015 - 2021

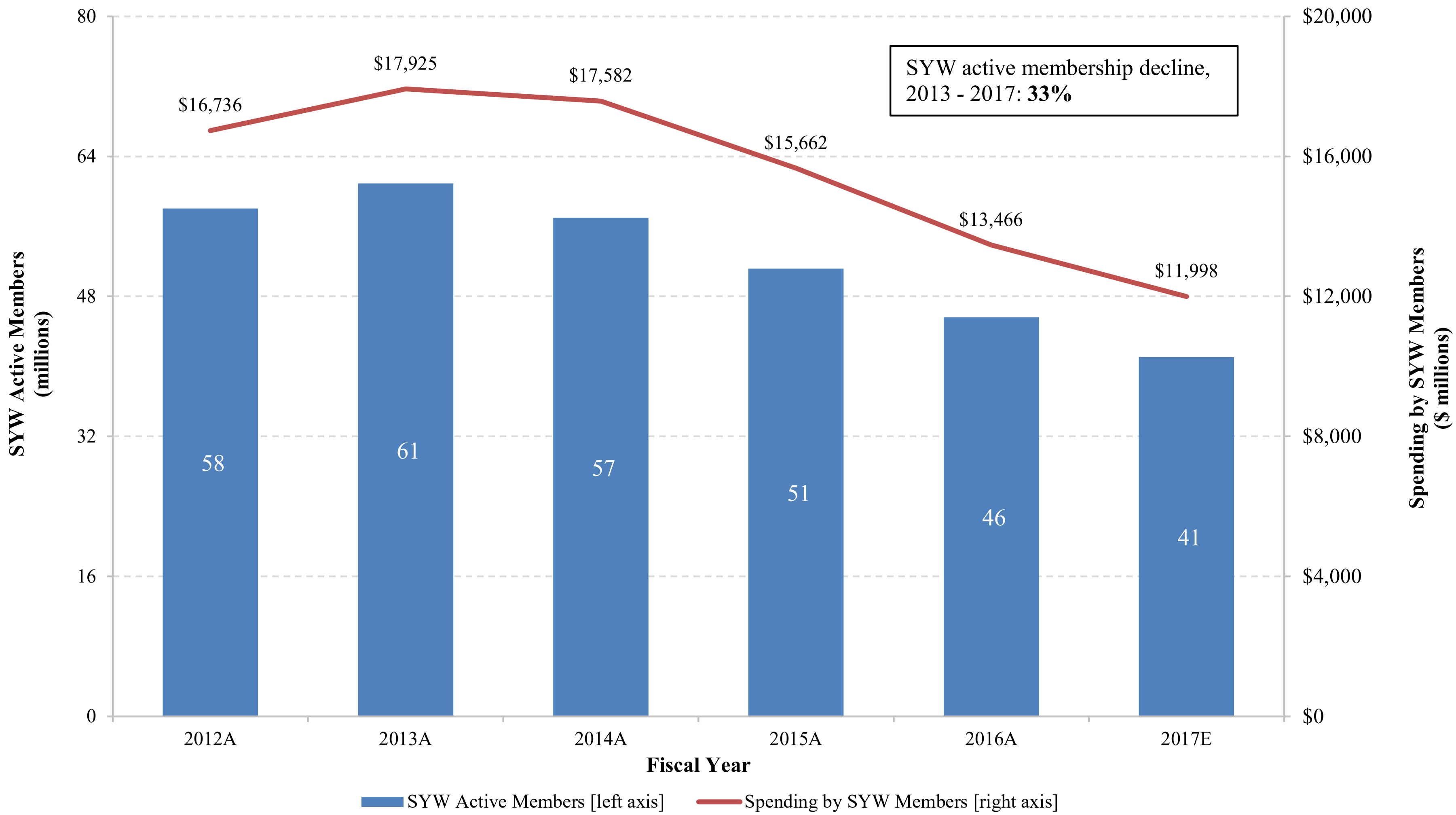
($ in millions)

	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Retail (4-Wall + Online + SYW)							
Revenue	$21,381	$18,492	$13,531	$8,991	$5,768	$5,909	$6,166
Gross Margin	$6,541	$5,476	$4,119	$2,572	$1,697	$1,829	$2,046
Gross Margin as a % of Revenue	*30.6%*	*29.6%*	*30.4%*	*28.6%*	*29.4%*	*31.0%*	*33.2%*
EBITDAP	$959	$628	$531	$242	$338	$444	$634
EBITDAP as a % of Revenue	*4.5%*	*3.4%*	*3.9%*	*2.7%*	*5.9%*	*7.5%*	*10.3%*
Home Services							
Revenue	$2,139	$2,159	$1,953	$1,762	$1,681	$1,573	$1,593
Gross Margin	$1,582	$1,592	$1,433	$1,276	$1,237	$1,107	$1,099
Gross Margin as a % of Revenue	*74.0%*	*73.7%*	*73.4%*	*72.4%*	*73.6%*	*70.4%*	*69.0%*
EBITDAP	$195	$266	$222	$123	$183	$148	$148
EBITDAP as a % of Revenue	*9.1%*	*12.3%*	*11.4%*	*7.0%*	*10.9%*	*9.4%*	*9.3%*
Financial Services							
Revenue	$66	$68	$74	$103	$49	$42	$44
Gross Margin	$66	$68	$74	$103	$49	$42	$44
Gross Margin as a % of Revenue	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
EBITDAP	$55	$59	$68	$99	$44	$37	$39
EBITDAP as a % of Revenue	*83.3%*	*86.8%*	*91.9%*	*96.1%*	*89.8%*	*88.1%*	*88.6%*
Other Businesses							
Revenue	$947	$824	$690	$792	$441	$551	$699
Gross Margin	$73	$94	$97	$269	$74	$113	$158
Gross Margin as a % of Revenue	*7.7%*	*11.4%*	*14.1%*	*34.0%*	*16.8%*	*20.5%*	*22.6%*
EBITDAP	$18	$14	$1	($13)	$4	$39	$82
EBITDAP as a % of Revenue	*1.9%*	*1.7%*	*0.1%*	*(1.6%)*	*0.9%*	*7.1%*	*11.7%*

Note:
[1] I assume gross margins of 100 percent for the Financial Services business. I calculate the gross margins for Sears' Other Businesses by subtracting from Sears' total gross margin the gross margins of its Retail (4-Wall + Online + SYW), Home Services, and Financial Services business units.

Source:
[1] 2019 Project Transform Liquidity Analysis.

Exhibit 21
Shop Your Way Active Membership
2012 - 2017

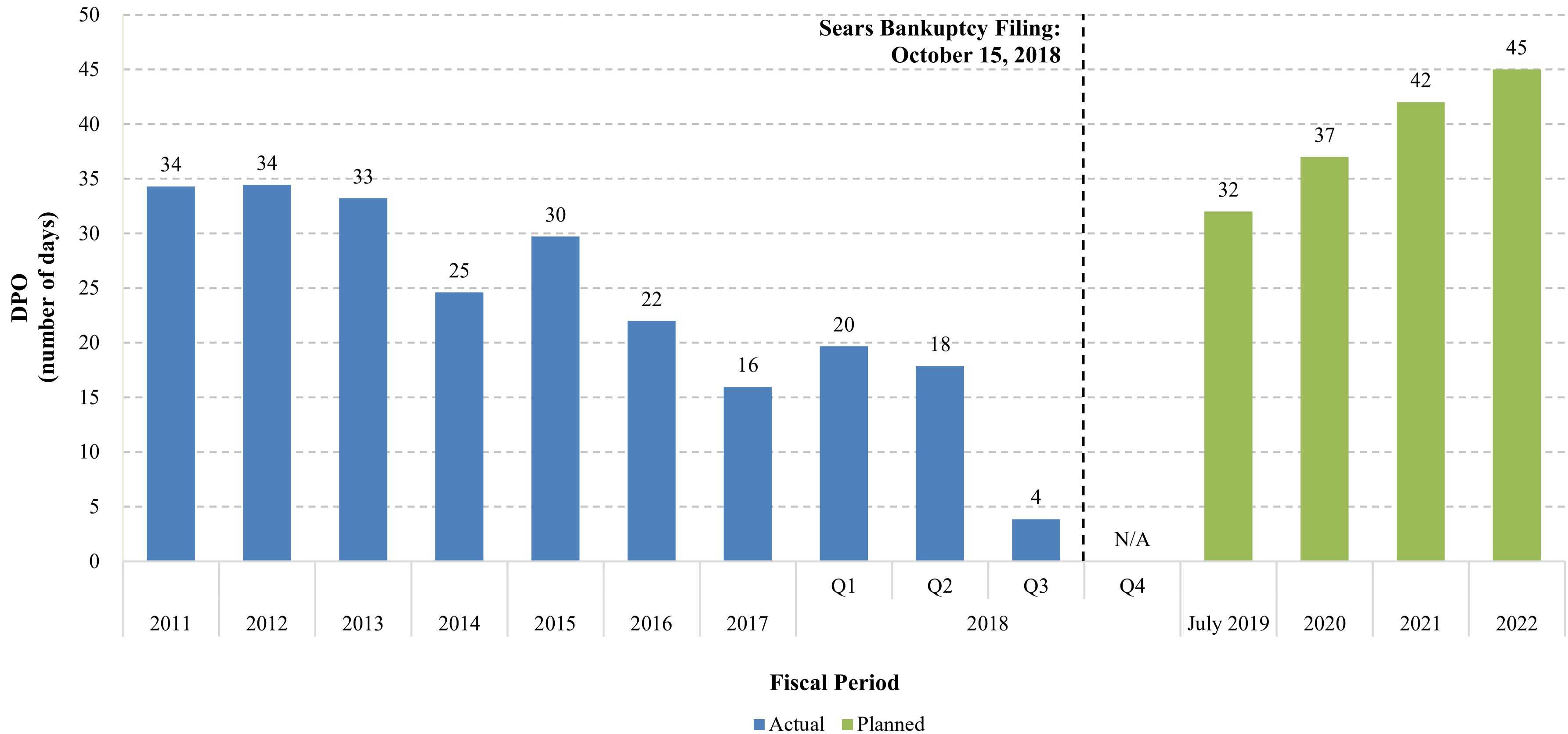


Note:
[1] Sears's fiscal year begins in February.

Source:
[1] ESL Investments, *Shop Your Way Data Request* (RS_SHC_00324749).

Exhibit 22

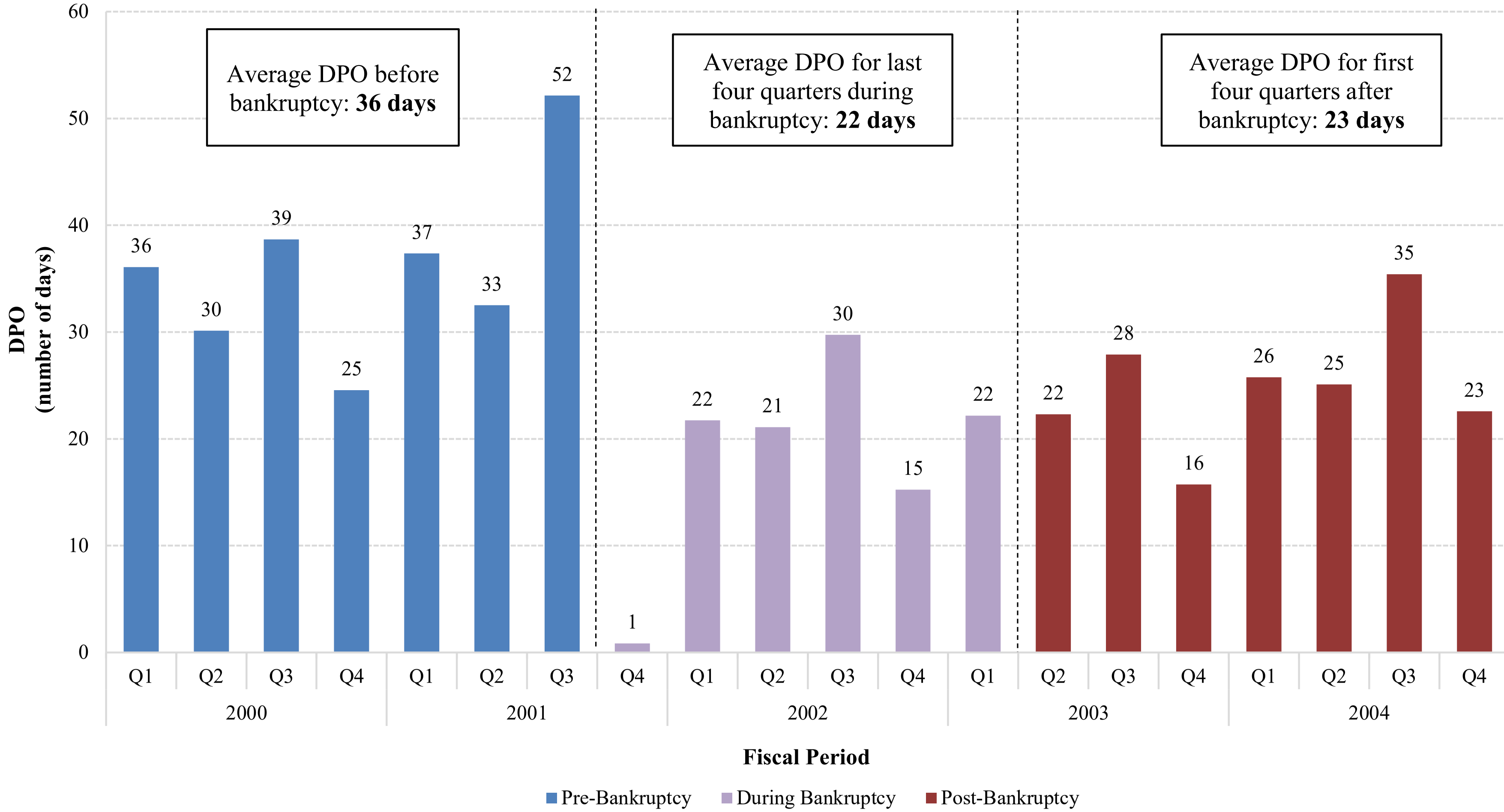
Comparison of Actual and Planned Sears Days Payable Outstanding ("DPO")



Notes:
[1] DPO is calculated as Merchandise Payable / Cost of Sales, Buying, and Occupancy * Days in Fiscal Period. Cost of Sales, Buying, and Occupancy includes merchandise sales to Sears Hometown and Outlet Stores starting in 2012 and rent expenses to Seritage starting in 2015.
[2] DPO for 2018 Q3 is affected by the stay imposed under bankruptcy law to accounts payable prior to October 15, 2018. See Sears 2018 10-Q Q3, p. 19.
[3] As of the time of this report, Sears has not released financials for 2018 Q4.
[4] The 2019 ESL Business Plan assumes Sears DPO will increase to above pre-petition level of 22 days by July 2019.

Sources:
[1] Sears Holdings Corp., 2011-2017 Forms 10-K.
[2] Sears Holdings Corp., 2018 Forms 10-Q.
[3] 2019 Project Transform Liquidity Analysis.

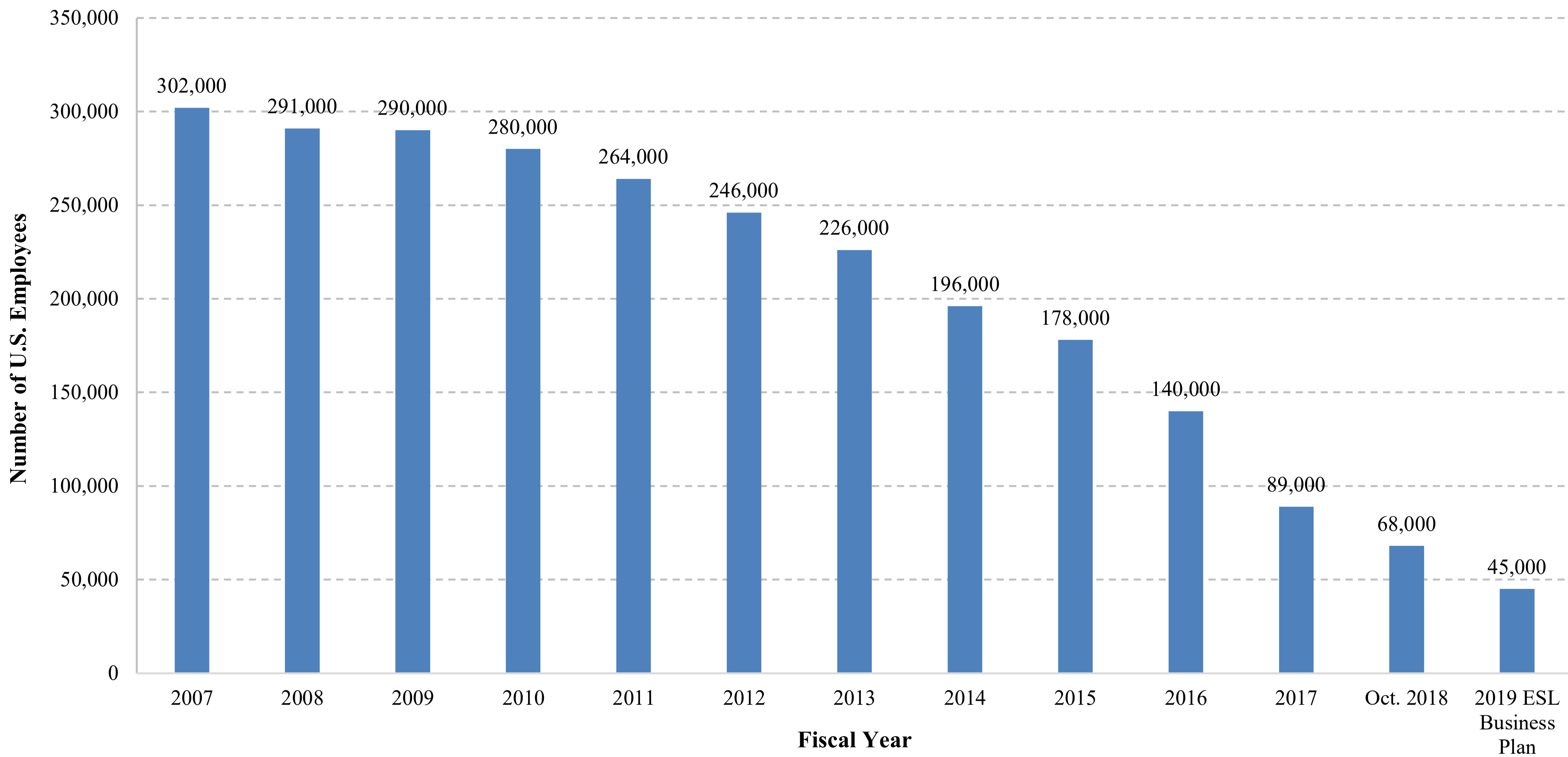
Exhibit 23
Comparison of Kmart DPO Before and After Bankruptcy



Note:
[1] Kmart filed for bankruptcy on January 22, 2002, shortly before the end of 2001 Q4. It emerged from bankruptcy on May 6, 2003, shortly after the beginning of 2003 Q2.
[2] DPO for 2001 Q4 is affected by the stay imposed under bankruptcy law to accounts payable prior to January 22, 2002. See Kmart 2001 10-K, p. 48.

Sources:
[1] Kmart Corp. and Kmart Holding Corp., 2000-2004 Forms 10-Q and 10-QA.
[2] Kmart Corp. and Kmart Holding Corp., 2000-2004 Forms 10-K and 10-KA.

Exhibit 24
Total Number of U.S. Sears Employees
2007 - 2019



Notes:
[1] The number of U.S. Sears employees includes all full-time and part-time employees in the United States and U.S. territories for subsidiaries of Sears Holdings Corporation.
[2] Sears's fiscal year begins in February.

Sources:
[1] Sears Holdings Corp., 2007-2017 Forms 10-K.
[2] Alistair Gray, "Sears Races to Avoid Outright Liquidation after Bankruptcy Filing," *Fin. Times* (Oct. 15, 2018), https://www.ft.com/content/57cd862a-d038-11e8-a9f2-7574db66bcd5.
[3] Kamlani Dep., p. 153.

APPENDIX A

Jan Rogers Kniffen
Curriculum Vitae

EXPERIENCE

J. ROGERS KNIFFEN WORLDWIDE ENTERPRISES, LLC **2005 – Present**
CEO, Retail Consulting

- J. Rogers Kniffen Worldwide Enterprises LLC (JRKWWE) provides equity research and financial and management consulting services relating to companies in the retail sector.
- JRKWWE covers U.S.-based and international retailers, including department stores, teen and missy specialty retailers, fashion forward specialty retailers, broad appeal specialty stores, discounters, off-price retailers, and suppliers. The consulting services include acquisition due diligence, benchmarking, competitive analyses, financial analysis, investor relations advisement, and market assessments.
- JRKWWE has provided due diligence to private equity firms on retail investment decisions.
- JRKWWE is retained by institutional investors for consulting services on investments in retailers, having retainer agreements with institutional investors across the globe.

THE MAY DEPARTMENT STORES COMPANY **1985 – 2005**
Senior Vice President & Treasurer (1991 – 2005)

- Responsible for long range financial planning, acquisition analysis, investor relations, treasury operations, risk management, safety, pension, profit sharing, foundation asset management, and communications.
- Valued and funded the acquisition of Marshall Field's, and valued and executed the spin-off of Payless ShoeSource.
- Served on the financial disclosure committee, and served as liaison to the Finance Committee of the Board of Directors.
- Chartered and was President of May National Bank of Ohio, May National Bank of Maryland, and May National Bank of Arizona, and was president of the Vermont domiciled Leadville and Snowdin captive insurance subsidiaries.
- Responsible for Federal, State, and local tax
- Responsible for interaction and audits with the OCC and Commissioner of Insurance Regulation.

Vice President and Treasurer (1986 – 1991)

- Led and funded the spin-off of Venture Stores through real estate and inventory financing, the sale of Caldor, the purchase of Foley's and Filene's, and Strawbridge's, and accomplished the pooling-of-interest merger with Associated Dry Goods, at the time the largest acquisition in retailing.
- Led the sale and leaseback of 100 department stores, and formed real estate and shopping center partnership to divest 26 shopping centers in a tax efficient transaction.

Director of Corporate Finance and Assistant Treasurer (1985 – 1986)

LINDENWOOD UNIVERSITY **1978 – 2005**
Adjunct Professor of Business Administration, Finance

ACF INDUSTRIES, INC / ICAHN AND CO. **1972 – 1985**
Director of Corporate Finance /Assistant Treasurer (1984 – 1985)

- Reported directly to the treasurer of Icahn and Co., handled the divestiture of three operating companies, and issued the largest junk bond offering in history to that point.

Director of Business Planning, Estimates and Scheduling (1982 – 1984)
Director of Estimates and Proposals (1980 – 1982)
Manager of Sales and Lease Administration (1979 – 1980)
Senior Planner for Strategic Planning, Senior Market Analyst, Market Analyst, Sales Representative (1972 – 1979)

MILITARY SERVICE

U.S. Air Force - served to Captain, 1970 – 1977

EDUCATION

St. Louis University - doctoral program in Finance, 1985 – 1986
M.B.A., Lindenwood University, Finance and M.I.S., 1978
B.S., Southern Illinois University, Journalism, 1971
University of Illinois, English major, 1966 – 1968

MEDIA

Regularly appear as a contributor for retail news on CNBC.
Regularly appeared as a retail expert on BNN, FBN and CBC prior to signing with CNBC.
Frequently quoted in print regarding retail.

EXPERT TESTIMONY

In re: Nine West Holdings, Inc., et al., United States Bankruptcy Court, Southern District of New York, Case No. 18-10947 (SCC)

Appendix B

Documents Considered

Data

Aswath Damodaran, NYU Stern, "Capital Expenditures by Sector (US)," http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/capex.html (last visited Jan. 26, 2019).

S&P Capital IQ, https://www.capitaliq.com/ (last visited Jan. 25, 2019).

United States Census Bureau, "Time Series / Trend Charts," https://www.census.gov/econ/currentdata/ (last visited Jan. 18, 2019).

Company Documents

ESL Investments, *Project Transform – Business Plan*, Jan. 2019 (RS_UCC_00000682).

ESL Investments, *Project Transform – Liquidity Analysis*, Jan. 14, 2019 (ESL-UCC-00005178).

ESL Investments, *Lender Presentation* (ESL-UCC-00004499.xlsx).

ESL Investments, *Lender Presentation*, Jan. 24, 2019.

ESL Investments, *Shop Your Way Data Request* (RS_SHC_00324749).

Sears Holdings Corp., *505 + SAC 24 Trailing Months (2).xlsx*.

Sears Holdings Corp., *2010-17 Store Data by Year.xlsx*.

Sears Holdings Corp., *2013 Plan Update*, Jan. 23, 2013 (SEARS_RC00200295).

Sears Holdings Corp., *2014 Plan Review*, Jan. 22, 2014 (DUFF00045570).

Sears Holdings Corp., *2015 Plan Review*, Jan. 21, 2015 (RS_SHC_00015574).

Sears Holdings Corp., *2016 Plan Update*, Jan. 28, 2016 (Sears_ESL00012719).

Sears Holdings Corp., *2017 Plan Update*, Feb. 8, 2017 (Sears_ESL00015417).

Sears Holdings Corporation, *2018 Plan Review*, Jan. 30, 2018 (Sears_ESL00020007).

Sears Holdings Corp., *FY 2010-2018 BU Recaps.xlsx*.

Sears Holdings Corp., *Preliminary Business Plan*, Dec. 2018.

Sears Holdings Corp., *Supply Chain Transformation*, Nov. 14, 2018.

Sears Holdings Corp., *VFS Act Vs Plan 2010-18.xlsx*.

Sears Holdings Corp., *SSS Weekly Sales Reports*.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Nov. 11, 2018 – Nov. 17, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Week 41

Sears Holdings Corp., "CDS – Sales Report (NCS)," Nov. 18, 2018 – Nov. 24, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Nov. 25, 2018 – Dec. 1, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Dec. 2, 2018 – Dec. 8, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Dec. 9, 2018 – Dec. 15, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Dec. 16, 2018 – Dec. 22, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Dec. 23, 2018 – Dec. 29, 2018.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Dec. 30, 2018 – Jan. 5, 2019.

Sears Holdings Corp., "CDS – Sales Report (NCS)," Jan. 6, 2019 – Jan. 12, 2019.

Depositions & Interviews

Deposition of Kunal Kamlani, *In Re: Sears Holdings Corp., et al.*, (Jan. 23, 2019).

Deposition of Robert Riecker, *In Re: Sears Holdings Corp., et al.*, Rough Transcript (Jan. 25, 2019).

Interview of Kunal Kamlani, *In Re: Sears Holdings Corp., et al.*, (Dec. 6, 2018).

Interview of Edward Lampert, *In Re: Sears Holdings Corp., et al.*, (Dec. 12, 2018).

Interview of Robert Riecker, *In Re: Sears Holdings Corp., et al.*, (Dec. 5, 2018).

Interview of Robert Schriesheim, *In Re: Sears Holdings Corp., et al.*, (Dec. 19, 2018).

Interview of Naren Sinha, *In Re: Sears Holdings Corp., et al.*, (Dec. 4, 2018).

Public Filings

Coach, Inc., 2015 Form 10-K, filed Aug. 19, 2016.

Daimler AG, Interim Report Q3 2018, Oct. 25, 2018.

Dillard's, Inc., 2015 Form 10-K, filed Mar. 23, 2016.

Dillard's, Inc., 2016 Form 10-K, filed Mar. 24, 2017.

Dillard's, Inc., 2017 Form 10-K, filed Mar. 30, 2018.

Ford Motor Co., Form 8-K, filed Jan. 23, 2019, Exhibit 99.2.

The Home Depot, Inc., 2017 Form 10-K, filed Mar. 21, 2018.

J. C. Penney Co., Inc., 2013 Form 10-K, filed Mar. 21, 2014.

J. C. Penney Co., Inc., 2014 Form 10-K, filed Mar. 23, 2015.

J. C. Penney Co., Inc., 2017 Form 10-K, filed Mar. 19, 2018.

J. C. Penney Co., Inc., 2017 Form 10-KA, Amendment No. 1 to Annual Report, filed May 30, 2018.

Kmart Corp., 2000 Form 10-K, filed Mar. 21, 2001.

Kmart Corp., 2000 Form 10-Q for Quarterly Period Ended April 26, 2000, filed June 2, 2000.

Kmart Corp., 2000 Form 10-Q for Quarterly Period Ended July 26, 2000, filed Sept. 1, 2000.

Kmart Corp., 2000 Form 10-Q for Quarterly Period Ended October 25, 2000, filed Dec. 6, 2000.

Kmart Corp., 2001 Form 10-KA, Amendment to Annual Report, filed Jan. 14, 2003.

Kmart Corp., 2001 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended May 2, 2001, filed June 12, 2002.

Kmart Corp., 2001 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended August 1, 2001, filed June 12, 2002.

Kmart Corp., 2001 Form 10-Q for Quarterly Period Ended October 31, 2001, filed Nov. 27, 2001.

Kmart Corp., 2002 Form 10-K, filed Mar. 24, 2003.

Kmart Corp., 2002 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended May 2, 2002, filed Jan. 14, 2003.

Kmart Corp., 2002 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended July 31, 2002, filed Jan. 14, 2003.

Kmart Corp., 2002 Form 10-Q for Quarterly Period Ended October 30, 2002, filed Dec. 23, 2002.

Kmart Holding Corp., 2003 Form 10-KA, Amendment to Annual Report, filed Feb. 11, 2005.

Kmart Corp., 2003 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended April 30, 2003, filed Aug. 8, 2003.

Kmart Corp., 2003 Form 10-Q for Quarterly Period Ended July 30, 2003, filed Aug. 29, 2003.

Kmart Corp., 2003 Form 10-Q for Quarterly Period Ended October 29, 2003, filed Dec. 5, 2003.

Kmart Holding Corp., 2004 Form 10-K, filed Mar. 9, 2005.

Kmart Holding Corp., 2004 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended April 28, 2004, filed Feb. 11, 2005.

Kmart Holding Corp., 2004 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended July 28, 2004, filed Feb. 11, 2005.

Kmart Holding Corp., 2004 Form 10-QA, Amendment No. 1 to Form 10-Q, for Quarterly Period Ended October 27, 2004, filed Feb. 11, 2005.

Kohl's Corp., 2017 Form 10-K, filed Mar. 23, 2018.

Lowe's Co., Inc., 2017 Form 10-K, filed Apr. 2, 2018.

Macy's Inc., 2017 Form 10-K, filed Apr. 4, 2018.

The May Department Stores Co., 2002 Form 10-K, filed Mar. 28, 2003.

The May Department Stores Co., 2004 Form 10-K, filed Mar. 25, 2005.

Ralph Lauren Corp., 2017 Form 10-K, filed May 23, 2018.

Sears Holdings Corp., 2007 Form 10-K, filed Mar. 26, 2008.

Sears Holdings Corp., 2008 Form 10-K, filed Mar. 16, 2009.

Sears Holdings Corp., 2009 Form 10-K, filed Mar. 12, 2010.

Sears Holdings Corp., 2010 Form 10-K, filed Mar. 11, 2011.

Sears Holdings Corp., 2011 Form 10-K, filed Mar. 14, 2012.

Sears Holdings Corp., 2012 Form 10-K, filed Mar. 19, 2013.

Sears Holdings Corp., 2013 Form 10-K, filed Mar. 18, 2014.

Sears Holdings Corp., 2014 Form 10-K, filed Mar. 17, 2015.

Sears Holdings Corp., 2015 Form 10-K, filed Mar. 16, 2016.

Sears Holdings Corp., 2016 Form 10-K, filed Mar. 21, 2017.

Sears Holdings Corp., 2017 Form 10-K, filed Mar. 23, 2018.

Sears Holdings Corp., 2018 Form 10-Q for Quarterly Period Ended May 5, 2018, filed May 31, 2018.

Sears Holdings Corp., 2018 Form 10-Q for Quarterly Period Ended August 4, 2018, filed September 13, 2018.

Sears Holdings Corp., 2018 Form 10-Q for Quarterly Period Ended November 3, 2018, filed Dec. 13, 2018.

Sears, Roebuck and Co., 2003 Form 10-K, filed Mar. 10, 2004.

Sears, Roebuck and Co., 2004 Form 10-K, filed Feb. 23, 2005.

Target Corp., 2017 Form 10-K, filed Mar. 14, 2018.

Walmart Inc., 2017 Form 10-K, filed Mar. 30, 2018.

Industry Publications & Press Releases

CBInsights, “Surviving the Retail Apocalypse” (2018).

The Conference Board, “The Conference Board Consumer Confidence Index Increased Again in October” (Oct. 30, 2018).

Credit Suisse, “Apparel Retail & Brands: Making Sense of Softlines Following a Tumultuous Twelve Months” (May 2017).

Credit Suisse, “US Store Closures Monitor: 2018 on Track for another Peak Square Footage Closure Year” (Apr. 23, 2018).

Deloitte, “2019 Retail Outlook” (2019).

Deloitte “Global Powers of Retailing 2018” (2018).

Deloitte, “Global Powers of Retailing 2019” (2019).

Evercore ISI, “1Q Update - Don’t Fear the Reaper,” May 25, 2017.

Evercore ISI, “Sears Holdings (SHLD): Seritage Update” (June 3, 2015).

Evercore ISI, “The Vicious Cycle Down” (Apr. 24, 2017).

FTI Consulting, “2017 U.S. Online Retail Forecast” (Oct. 16, 2017).

FTI Consulting, “2018 U.S. Online Retail Forecast” (Sept. 10, 2018).

Green Street Advisors, LLC, “Retail: Survival of the Fittest.”

International Council of Shopping Centers, “Shopping for the Truth: Time Well Spent” (Jan. 24, 2019).

ISI, “Sears Holdings (SHLD): ‘We May Continue to Experience Challenges in our Financial Performance…’” (Aug. 21, 2014).

J.P. Morgan, “Digging Deeper: Another One Bites The Dust? Cross-Asset Class SHLD Primer Points & Laterals,” Oct. 11, 2018.

Press Release, Sears Holdings Corp., “Sears Holdings Completes Seritage Growth Properties Transaction” (July 7, 2015).

Press Release, Ralph Lauren Corp., “Ralph Lauren Corporation Presents ‘Way Forward’ Plan and Financial Outlook” (June 7, 2016).

S&P Global Ratings, "Research Update: Sears Holdings Corp. Downgraded to 'CCC' from 'CCC+' on Need to Address Mid-2018 Maturities; Outlook Negative" (Oct. 27, 2017).

Standard & Poor's Ratings Services, "Sears Holdings Corp.," Jan. 25, 2012.

Standard & Poor's Rating Services, "Sears Holdings Corp. 'CCC+' Rating Affirmed; Second-Lien and Senior Note Ratings Raised on Recovery Prospects," July 1, 2015.

Susquehanna Financial Group, "Sears Holdings: Chairman Lampert Sends (and Receives) Break-Up Letter" (Apr. 23, 2018).

Susquehanna Financial Group, "Sears Holdings: FQ1:18: Performance Erosion Accelerates as Corp Talking Points Ring More Hollow," June 1, 2018.

Thomson Reuters, "Edited Transcript: Q3 2018 Target Corp Earnings Call" (Nov. 20, 2018 1:00 PM).

Thomson Reuters, "Edited Transcript: TGT – Q2 2018 Target Corp Earnings Call" (Aug. 22, 2018 12:00 PM).

UBS, "Q-Series: eCommerce Migration: How Will Penetration Rates Evolve by Category? (Revised)" (Dec. 19, 2018).

Walmart, "Walmart U.S. Q2 Comps(1) Grew 4.5% and Walmart U.S. eCommerce Sales Grew 40%, Q2 GAAP Net Loss Per Share of $0.29; Adjusted EPS(2) of $1.29" (Aug. 16, 2018).

Walmart, "Walmart U.S. Q3 Comp Sales(1) Grew 3.4% and Walmart U.S. eCommerce Sales Grew 43%, Q3 GAAP EPS of $0.58" (Nov. 15, 2018).

News Articles

Fareeha Ali, "Sears Is Bankrupt: Missed E-Commerce Opportunities and Contributed Omnichannel Execution Led to Sears' Decline," *Digital Commerce 360* (Oct. 15, 2018), https://www.digitalcommerce360.com/2018/10/15/sears-files-for-bankruptcy-as-e-commerce-stalled-for-years/.

Andrew Bary, "Attention! Kmart Holders," *Wall St. J.* (July 19, 2004 12:01 AM), https://www.wsj.com/articles/SB109002109223466280.

Nathan Bomey and Charisse Jones, "Sears, Kmart Stores Ailing as CEO Eddie Lampert's Hedge Fund Gets Hundreds of Millions," *USA Today* (June 18, 2018 1:50 PM), https://www.usatoday.com/story/money/2018/06/18/sears-ceo-eddie-lampert-kmart/638218002/.

Kevin Curran, "Chart of the Day: Home Depot and Lowe's Go Head to Head in Home Improvement," *Real Money* (Nov. 12, 2018 2:37 PM), https://realmoney.thestreet.com/investing/stocks/chart-of-the-day-home-depot-and-lowes-go-head-to-head-in-home-improvement-14777735.

Jessica DiNapoli, "Bon-Ton Stores Clinches Bankruptcy Financing-Sources," *Reuters* (Feb. 2, 2018 4:02 AM), https://www.reuters.com/article/bon-ton-stores-bankruptcy/bon-ton-stores-clinches-bankruptcy-financing-sources-idUSL2N1PR2BC.

Matt Egan, "Retail Defaults Soar to Record High in 2018," *CNN Business* (Apr.10, 2018 12:29 PM), https://money.cnn.com/2018/04/10/investing/retail-defaults-sears-moodys/index.html?iid=EL.

Maureen Farrell, "J.C. Penney Stock Sinks on Falling Sales," *CNN Money* (May 16, 2012, 10:38 AM), https://money.cnn.com/2012/05/15/markets/jc-penney-stock/index.htm.

Krista Garcia, "The State of US Apparel in Five Charts," *eMarketer Retail* (Apr. 27, 2018), https://retail.emarketer.com/article/state-of-us-apparel-shopping-five-charts/5ae2106bebd4000b78fe1517.

Fred Gehring, "Tommy Hilfiger's Chairman on Going Private To Spark a Turnaround," *Harvard Bus. Rev.* (Jul. - Aug. 2015), https://hbr.org/2015/07/tommy-hilfigers-chairman-on-going-private-to-spark-a-turnaround.

Alistair Gray, "Sears Races to Avoid Outright Liquidation after Bankruptcy Filing," *Fin. Times* (Oct. 15, 2018), https://www.ft.com/content/57cd862a-d038-11e8-a9f2-7574db66bcd5.

Erin Griffith, "Apax Banks 4.5x on Tommy Hilfiger, Invests in PVH Again," *The PE Hub Network* (Mar. 15, 2010), https://www.pehub.com/2010/03/apax-partners-banks-45x-on-tommy-invests-in-pvh-again/.

Constance L. Hays, "Market Place; A New Start, A New Name. But Have Things Really Changed as Kmart Comes Out of Bankruptcy?" *N.Y. Times* (May 7, 2003), https://www.nytimes.com/2003/05/07/business/market-place-new-start-new-name-but-have-things-really-changed-kmart-comes.html.

HNN Staff, "Sears is Back at Ala Moana (But Not Like You Remember It)," *Hawaii News Now* (Nov. 9, 2017 1:23 AM), http://www.hawaiinewsnow.com/story/36800809/sears-to-reopen-in-ala-moana-center-after-4-year-hiatus/.

Chris Isidore, "How the Once-Proud Kenmore Brand Ended Up On the Scrap Heap," *CNN Business* (Sept. 4, 2018 1:03 PM), https://money.cnn.com/2018/09/01/news/companies/sears-kenmore/index.html.

Chris Isidore, "Sears' Iconic Craftsman Tools Coming to Rival Lowe's," *CNN Business* (Oct. 24, 2017 1:25 PM), https://money.cnn.com/2017/10/24/news/companies/craftsman-lowes-sears/index.html.

Chris Isidore, "Sears, the Store that Changed America, Declares Bankruptcy," *CNN Business* (Oct. 15, 2018 12:58 PM), https://www.cnn.com/2018/10/15/business/sears-bankruptcy/index.html.

Chris Isidore, "Things are Bad at Sears. They're Worse at Kmart," *CNN Business* (Oct. 21, 2018 4:10 PM), https://www.cnn.com/2018/10/21/business/sears-bankruptcy-kmart/index.html.

Daniel Keyes, "E-Commerce Will Make Up 17% of All US Retail Sales by 2022 – and One Company is the Main Reason," *Business Insider* (Aug. 11, 2017 11:12 AM), https://www.businessinsider.com/e-commerce-retail-sales-2022-amazon-2017-8.

Jan Kniffen, "Sears Can't Cut Costs Successfully: Pro," *CNBC* (Feb. 10, 2017 2:17 PM), https://www.cnbc.com/video/2017/02/10/sears-cant-cut-costs-successfully-pro.html.

Natalie Kostelni, "Sears to Close at King of Prussia Mall," *Phila. Bus. J.* (Oct. 20, 2014 12:54 PM), https://www.bizjournals.com/philadelphia/blog/real-estate/2014/10/sears-to-close-at-king-of-prussia-mall.html?s=print.

Paul R. La Monica, "Sears Sells Craftsman to Stanley Black & Decker," *CNN Business* (Jan. 5, 2017 2:33 PM), https://money.cnn.com/2017/01/05/investing/sears-sells-craftsman-stanley-black-decker/index.html.

Adam Levine-Weinberg, "Cost-Cutting Is the Key to J.C. Penney's Turnaround," *The Motley Fool* (Aug. 20, 2015), https://www.fool.com/investing/general/2015/08/20/cost-cutting-is-the-key-to-jc-penneys-turnaround.aspx.

Edmund Mander, "Best Buy, Home Depot, Lowe's Have Most to Gain from Sears Closures, Study Finds," *Int'l Council of Shopping Ctrs.* (2019), https://www.icsc.org/news-and-views/icsc-exchange/home-depot-lowes-best-buy-gain-most-from-sears-closures-study-finds.

NBR Staff, "Nightly Business Report – January 5, 2017," *NBR*, http://nbr.com/2017/01/05/nightly-business-report-january-5-2017/.

Jennifer Duell Popovec, "Performance Gap Grows within the B Mall Sector," *National Real Estate Investor* (Nov. 13, 2014), https://www.nreionline.com/retail/performance-gap-grows-within-b-mall-sector.

Laura Sanicola, "America's Malls Are Rotting Away," *CNN Business* (Dec. 12, 2017 8:12 PM), https://money.cnn.com/2017/12/12/news/companies/mall-closing/index.html.

Kanishka Singh, "Sears CEO's Hedge Fund Offers to Buy Kenmore Brand for $400 Million," *Reuters* (Aug. 14, 2018 8:09 PM), https://www.reuters.com/article/us-sears-holding-divestiture/sears-ceos-hedge-fund-offers-to-buy-kenmore-brand-for-400-million-idUSKBN1L000C.

Phalguni Soni, "Coach's 3Q15 Earnings Beat Estimates, but Stock Plunges Anyway," *Market Realist* (Apr. 30, 2015 2:12 PM), https://marketrealist.com/2015/04/future-opportunities-challenges-coach.

Lauren Thomas, "America's 10 Most Valuable Malls are Bringing in Billions in Sales. Here's Where They Are," *CNBC* (Jan. 29, 2018 12:02 PM), https://www.cnbc.com/2018/01/29/americas-10-most-valuable-malls-are-bringing-in-billions-in-sales-heres-where-they-are.html.

Lauren Thomas, "Doom and Gloom: Department Stores' Disappointing Holiday Sales Results Spell Trouble for 2019," *CNBC* (Jan. 17, 2019 7:06 PM),

https://www.cnbc.com/2019/01/17/department-stores-disappointing-holiday-sales-results-spell-trouble.html.

Lauren Thomas, "Gymboree Files for Chapter 11 Bankruptcy; CFO Leaves Retailer," *CNBC* (June 12, 2017 11:42 AM), https://www.cnbc.com/2017/06/12/gymboree-files-for-chapter-11-bankruptcy-cfo-departs-retailer.html.

Lauren Thomas and Lauren Hirsch, "Sears Announces Lampert's Hedge Fund, ESL, as Winning Bid in Bankruptcy Court Auction," *CNBC* (Jan. 17, 2019 11:36 AM), https://www.cnbc.com/2019/01/17/sears-announces-esl-as-winning-bid-in-bankruptcy-auction.html.

Trefis Team, "The Main Facets of Ralph Lauren's Turnaround Plan," *Forbes* (Aug. 1, 2016, 8:34 AM), https://www.forbes.com/sites/greatspeculations/2016/08/01/the-main-facets-of-ralph-laurens-turnaround-plan/#11247c90507b.

Phil Wahba, "Coach Thinks Outside the Bag," *Fortune* (May 24, 2017), http://fortune.com/2017/05/24/coach-victor-luis-stuart-vevers/.

Phil Wahba, "Gymboree Plans to Close after Post-Bankruptcy Comeback Fails," *Fortune* (Jan. 17, 2019), http://fortune.com/2019/01/17/gymboree-liquidation/.

Danielle Wiener-Bronner, "Nine West Files for Bankruptcy," *CNN Business* (Apr. 6, 2018 4:19 PM), https://money.cnn.com/2018/04/06/news/companies/nine-west-bankruptcy/index.html?iid=EL.

Liz Wolf, "Sears Will End Up in Liquidation, Say Experts, Proving a Mixed Blessing for Mall Landlords," *Nat'l Real Estate Investor* (Oct. 18, 2018), https://www.nreionline.com/retail/sears-will-end-liquidation-say-experts-proving-mixed-blessing-mall-landlords.

Jan Wolfe, "Sears' Plan to Sell Brands No Salve for Financial Woes," *Reuters* (Mar. 23, 2017), https://www.reuters.com/article/us-sears-restructuring-brands-analysis/sears-plan-to-sell-brands-no-salve-for-financial-woes-idUSKBN16U2PX.

"Sears Closes Ala Moana Center Store in Honolulu," *Pacific Bus. News* (June 3, 2013 12:55 PM), https://www.bizjournals.com/pacific/blog/morning_call/2013/06/sears-closes-ala-moana-center-store-in.html.

APPENDIX C

Restructuring Examples

1. In this Appendix I discuss restructuring examples undertaken by other retailers. Numerous retailers who faced similar challenges to those of Sears implemented restructuring plans and experienced a subsequent decline in their revenue.
2. In the early 2000s, Tommy Hilfiger was struggling with falling revenue and a diluted brand because of too much product discounting.[1] After a leveraged buyout, the company implemented a restructuring plan that cut 40 percent of U.S. headcount and invested in new retail locations.[2] Based on their stated strategy, I would have expected revenue to decline, and in fact Tommy Hilfiger's CEO at the time did too, stating, "[y]ou couldn't do this kind of turnaround at a publicly traded company. It would be too extreme, and you'd shrink the top line too dramatically."[3] I recall that Hilfiger's North American revenues declined a further 20 percent through the restructuring, returning to growth in 2009.
3. J.C. Penney is another retailer that experienced a similar fate during its restructuring attempt in 2012. The company announced a plan to cut $900 million in SG&A over two years through layoffs and by reducing the number of promotions run.[4] I attended the meeting when Ron Johnson, then the CEO of J.C. Penney, announced the restructuring. While this was an amazing restructuring of an old line retail company that clearly needed to be restructured, at the time, I expected that J.C. Penney's revenue would drop 20 percent during the first quarter after restructuring and continue to drop in the following

---

1 Fred Gehring, "Tommy Hilfiger's Chairman on Going Private To Spark a Turnaround," *Harvard Business Review* (2015), https://hbr.org/2015/07/tommy-hilfigers-chairman-on-going-private-to-spark-a-turnaround.

2 Fred Gehring, "Tommy Hilfiger's Chairman on Going Private To Spark a Turnaround," *Harvard Business Review* (2015), https://hbr.org/2015/07/tommy-hilfigers-chairman-on-going-private-to-spark-a-turnaround; Erin Griffith, "Apax Banks 4.5x on Tommy Hilfiger, Invests in PVH Again," *The PE Hub Network* (2010), https://www.pehub.com/2010/03/apax-partners-banks-45x-on-tommy-invests-in-pvh-again/.

3 Fred Gehring, "Tommy Hilfiger's Chairman on Going Private To Spark a Turnaround," *Harvard Business Review* (2015), https://hbr.org/2015/07/tommy-hilfigers-chairman-on-going-private-to-spark-a-turnaround.

4 Adam Levine-Weinberg, "Cost-Cutting Is the Key to J.C. Penney's Turnaround," *The Motley Fool* (August 20, 2015), https://www.fool.com/investing/general/2015/08/20/cost-cutting-is-the-key-to-jc-penneys-turnaround.aspx.

quarter. I expected such a large drop because we (May) had tested, on a much smaller scale, some version of almost every change that was being implemented at J.C. Penney. In my experience, no retailer had ever undertaken so many changes affecting so many stores in such a short time period. While reorganizations usually cause revenue drops in the 4 percent to 8 percent range, I was convinced that J.C. Penney's substantial reorganization coupled with a complete change in pricing policy, vendor structure, and store layout would cause a drop in revenue of about three times the normal magnitude. In fact, same store revenue dropped 19 percent that first quarter with total net revenue falling approximately 25 percent in 2012 (the first year of the restructuring), and then another 9 percent in 2013 before stabilizing.[5] Meanwhile, gross margin dropped from 36 percent in 2011 to 31 percent in 2012 and 29 percent in 2013. By 2015, $1.33B in SG&A had been cut, revenues were stable, gross margins had returned to pre-restructuring levels, and many believed that J.C. Penney, while not exactly healthy, had been saved from certain disaster.[6]

4. There are also examples of firms that closed retail locations and experienced a similar decline in revenues. For example, in June 2014, Coach announced it would close 20 percent of its stores in North America.[7] The firm's guidance for 2015 called for a "low double-digit" decline in revenue, "primarily due to store closures," and the CEO told investors "to expect about eight quarters…before North American revenue would turn around."[8] The actual results were right in line with Coach's expectations: revenue

---

5 Maureen Farrell, "J.C. Penney Stock Sinks on Falling Sales" (May 16, 2012), https://money.cnn.com/2012/05/15/markets/jc-penney-stock/index.htm; J.C. Penney Company, Inc. Form 10-K for the fiscal year ended February 1, 2014 (p. 58).

6 J.C. Penney Company, Inc. Form 10-K for the fiscal year ended February 1, 2014 (p. 58); J.C. Penney Company, Inc. Form 10-K for the fiscal year ended January 31, 2015 (p. 61); J.C. Penney Company, Inc. Form 10-K for the fiscal year ended February 3, 2018 (p. 62); Adam Levine-Weinberg, "Cost-Cutting Is the Key to J.C. Penney's Turnaround," *The Motley Fool* (Aug 20, 2015), https://www.fool.com/investing/general/2015/08/20/cost-cutting-is-the-key-to-jc-penneys-turnaround.aspx.

7 Phil Wahba, "Coach Thinks Outside the Bag," *Fortune* (May 24, 2017), http://fortune.com/2017/05/24/coach-victor-luis-stuart-vevers/.

8 Phalguni Soni, "Coach's 3Q15 Earnings Beat Estimates, but Stock Plunges Anyway," *Market Realist* (April 30, 2015), https://marketrealist.com/2015/04/future-opportunities-challenges-coach; Phil Wahba, "Coach Thinks Outside the Bag," *Fortune* (May 24, 2017), http://fortune.com/2017/05/24/coach-victor-luis-stuart-vevers/.

dropped 12.7 percent in the first year after stores were closed before stabilizing two years later.[9]

5. Ralph Lauren also announced a new long-term strategy in 2016 that centered on shrinking and refocusing the firm. This plan included both cutting headcount by 8 percent and closing around 50 stores.[10] The firm's guidance called for double-digit declines in revenue during the first year of restructuring with expectations that performance would stabilize in fiscal 2018.[11] Actual revenues eventually declined over 15 percent in North America and 10 percent overall during fiscal 2017.[12] Revenue took longer than expected to turn around with further declines in 2018, demonstrating the challenges associated with such a significant restructuring plan.[13]

6. Even well-performing retailers experience declines in their revenues when undertaking a restructuring. The May Department Store Company executed numerous acquisitions and mergers in which stores were closed, staff were laid off, and overhead expenses were cut. Examples include Thalhimer's merger with Hecht's, Strawbridge's merger with Hecht's, L.S. Ayres' merger with Famous-Barr, The Jones Store's merger with Famous-Barr, Kaufmann's merger with Filene's, May Company California's merger with J.W. Robinson's, May D&F's merger with Denver Dry Goods Company, May D&F's merger with Foley's, and Meier & Frank's merger with Robinsons-May. In the 2002 merger of Kaufmann's with Filene's, May closed Kaufmann's headquarters and combined the back-office operations of the two business divisions. After the consolidation, revenue for the combined division fell more than for May as a whole.[14] The May Department Store Company had years of experience merging operations, cutting costs, and streamlining its

---

9 Phil Wahba, "Coach Thinks Outside the Bag," *Fortune* (May 24, 2017), http://fortune.com/2017/05/24/coach-victor-luis-stuart-vevers/; Coach, Inc. Form 10-K for the fiscal year ended July 2, 2016 (p. 26).

10 Trefis Team, "The Main Facets of Ralph Lauren's Turnaround Plan," *Forbes* (August 1, 2016), https://www.forbes.com/sites/greatspeculations/2016/08/01/the-main-facets-of-ralph-laurens-turnaround-plan/#11247c90507b.

11 Ralph Lauren Corporation. "Ralph Lauren Corporation Presents "Way Forward" Plan and Financial Outlook" (June 7, 2016), http://investor.ralphlauren.com/phoenix.zhtml?c=65933&p=irol-newsArticle&ID=2175676.

12 Ralph Lauren Corporation Form 10-K for the fiscal year ended March 31, 2018 (pp. 50-51).

13 Ralph Lauren Corporation Form 10-K for the fiscal year ended March 31, 2018 (pp. 44-45).

14 The May Department Stores Company Form 10-K for the fiscal year ended February 1, 2003 (p. 9); The May Department Stores Company Form 10-K for the fiscal year ended January 29, 2005 (p. 16).

business and yet it still faced the same expected decline in near-term revenues when implementing restructuring plans.